BUSINESS WEEK

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Washington Bulletin

WASHINGTON *(By Business Week Staff Correspondents)*—Consequences of the Supreme Court's gold clause decisions include stimulation of business and international trade by removal of uncertainty, calling in all gold clause bonds and refinancing as rapidly as possible to head off any new controversy about "damages," abandonment of many private suits to demonstrate damages on corporation gold clause bonds, burial of all plans for revamping the Court (such as increasing membership) to make it amenable to the New Deal.

The decisions will smooth the path to stabilization when, as, and if the Administration should desire it between the dollar and the pound sterling. Diplomats here believe Britain still unready, think a stabilization move unlikely in the near future. Treasury experts say "likely." But the diplomats are apt to be better informed.

WHAT CONGRESS DID

The Senate:
Debated Work Relief Bill.
Approved Huey Long's resolution to investigate the Postmaster General.

The House:
Passed Connolly Oil Bill.
Rejected Lea plan for measuring vessels using the Panama Canal.

Free to Experiment

Another consequence is the freeing of the Administration's hands in various plans for further experimentation with its new powers. There will be some tendency to increase strictly constitutional objections to new legislation in the Senate on the theory that such objections can no longer be left to the conservatism of the high Court. This is the least important of all repercussions, as political considerations are much more important than constitutional ones. Only a demonstration that Roosevelt has lost his popularity can be serious here.

30-Hour Compromise Looms

Passage of a compromise on the 30-hour work week grows more probable. Most leaders in the House and Senate now think it sure. Talk is of a 40-hour compromise. But elements are brewing which indicate this figure will be lowered—probably to 38 at the maximum. Possibly to 36. However, exemptions will be written into the law for certain industries, certain geographic areas, or certain types of employment. Which means there will be log-rolling comparable to that during the passage of tariff or old-time rivers-and-harbors bills. In fact, this is the chief hope of opponents. The real danger is that too many rather than too few restrictions may be swept aside in the rush.

Sacrifice Wagner Bill

The Wagner Labor Relations Bill will be pushed vigorously in an effort to enforce "majority rule," to outlaw company unions, and otherwise to strengthen orthodox labor leaders. Best judgment at the moment is that it will fail. Labor leaders are much more interested in the 30-hour week, would accept this as compromise between passing the Wagner Bill and seeing re-enactment of Section 7-a without clarification.

NRA Pushes Wage Increase

NRA, with the active support of the President, is expected to redouble efforts to obtain drastic wage increases for work beyond average code hours and to shorten hours wherever possible—all with the object not only of carrying out the originally avowed purpose of NIRA, but to head off the 30-hour week compromise.

Oil All Washed Up

Despite the irritation of Lord High Oil Administrator Ickes, the House, in passing the Connolly Bill to control interstate shipment of hot oil, has washed its hands of the whole situation for this session. Ickes wants a bill to control production in various states. He will not get it.

High Pressure Collections

NRA code authorities are studying the clause in the AAA bill permitting state and local committees to sue licensees who are delinquent in payment of pro-rata expenses. They may attempt to use this plan to help code authorities whose collections are slow.

Two Years More of NIRA

NIRA's extension for 2 years—which the President will get—is to leave voluntary submission of codes in the picture but also the power to impose minimum labor provisions on industries that don't volunteer. Snatching Blue Eagles is to be succeeded by more effective enforcement methods—if Congress can find them.

Intimate Tactics

Telephone talks with key men in the Senate will be used more and more by the President to bring recalcitrants back in line, *quid pro quo* frequently being the text, though the old personality still retains much of its power. Impatient demands of radical advisers for "fireside" radio talks and "crackdowns" on opponents aren't getting anywhere. Actually, most talk about the Senate's getting out of hand comes from radicals, not from dismayed conservatives.

Just a Gesture?

Temporarily reassured by the appointment of Robert E. Wood, of Sears, Roebuck, as chairman of the committee to advise the government on spending the big work relief fund, business is now waiting with interest to see whether the Administration will just listen politely to his advice. Washington thinks the White House will continue to make its own decisions regardless, but at least the Wood appointment insures a hearing for the conservative side.

$4 Billions Not for Ickes

PWA Administrator Ickes is due for a disappointment in his desire to spend the entire $4 billions of work relief funds. His canvass of municipal and state authorities has produced $1 billion in possible public work projects. Many of these will not stand close scrutiny but the total, combined with $1 billion of federal and $2 billions of non-federal projects already on file, adds up, strangely enough, to the exact appropriation figure.

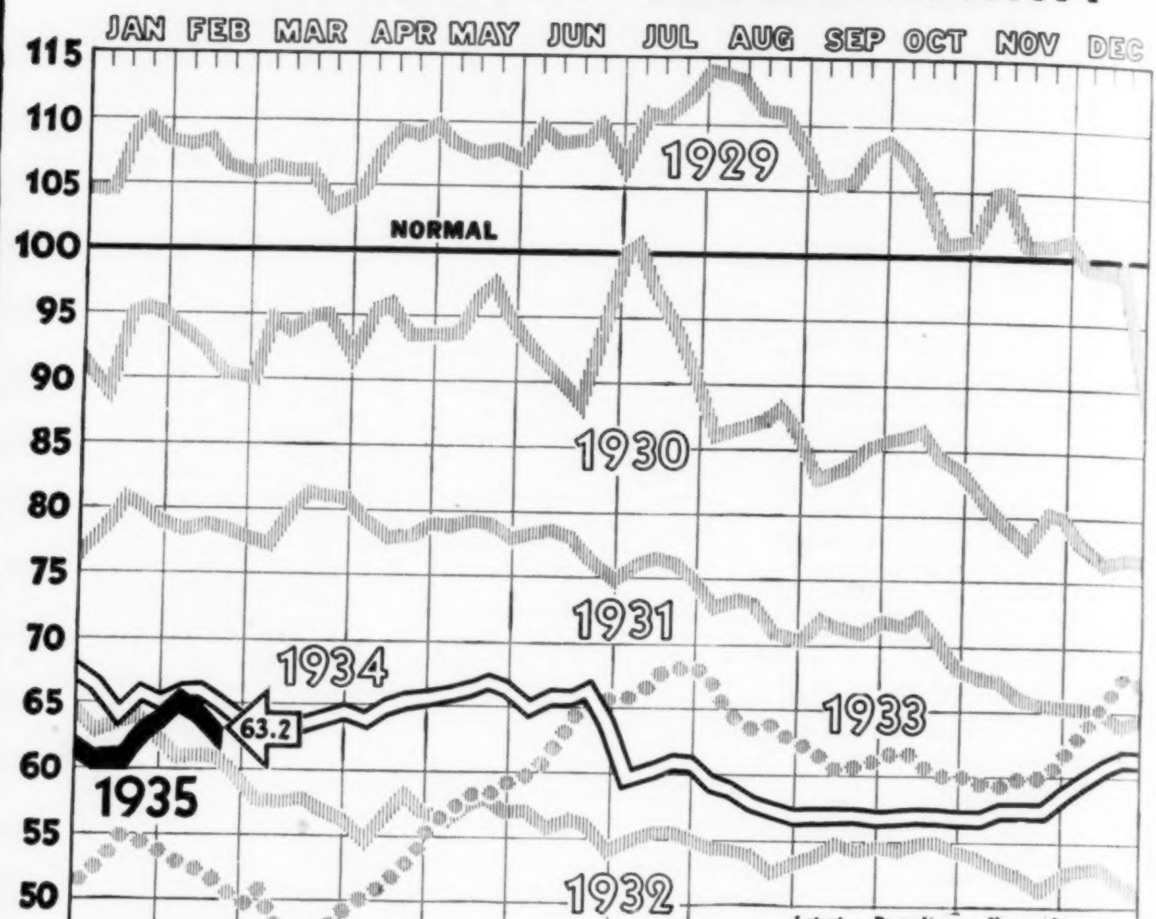
"Bigness" Bills

Strong support for the Borah bill intended to limit the size to which business may grow comes not only from the radicals on Capitol Hill but, some senators insist, from the White House. There is nothing like enough support in sight at the moment to indicate passage of anything so radical as the Wheeler bill, imposing a tax running up to 25% on returns over $50 millions. So far as the present session goes, the whole "bigness" drive will probably wind up in talk.

Will Scrutinize RFC Loans

While the amendments liberalizing RFC direct loans to industry allow advances to new enterprises and for construction and new equipment, no loan will be made until officials are assured that it will not duplicate facilities or aggravate overproduction.

WEEKLY INDEX OF BUSINESS ACTIVITY



	Latest Week	Preceding Week	Year Ago	Average 1930-34
BUSINESS WEEK INDEX	*63.2	†64.9	65.6	69.8
PRODUCTION				
★ Steel Ingot Operation (% of capacity)	49.1	50.8	43.6	44.1
★ Building Contracts (F. W. Dodge, daily av'ge, thousands, 4-week basis)	...	$4,035	$6,764	$6,860
★ Bituminous Coal (daily average 1,000 tons)	*1,418	†1,415	1,287	1,387
★ Electric Power (millions K.W.H.)	1,761	1,764	1,641	1,629
TRADE				
Total Carloadings (daily average 1,000 cars)	99	100	96	109
★ Miscellaneous and L.C.L. Carloadings (daily average 1,000 cars)	61	61	59	68
★ Check Payments (outside N. Y. City, millions)	$2,847	$3,451	$2,614	$3,266
★ Money in Circulation (daily average, millions)	$5,440	$5,423	$5,335	$5,142
PRICES (Average for the Week)				
Wheat (No. 2, hard winter, Kansas City, bu.)	$1.00	$.98	$.85	$.73
Cotton (middling, New York, lb.)	$.127	$.126	$.125	$.104
Iron and Steel (STEEL, composite, ton)	$32.54	$32.56	$31.33	$31.00
Copper (electrolytic, f.o.b. refinery, lb.)	$.088	$.088	$.078	$.092
All Commodities (Fisher's Index, 1926 = 100)	82.4	81.7	73.7	72.4
FINANCE				
Federal Reserve Credit Outstanding (daily average, millions)	$2,468	$2,466	$2,602	$1,738
Loans and Investments, Federal Reserve rep't'g member banks (millions)	$18,245	$18,208	$17,092	......
★ Commercial Loans, Federal Reserve reporting member banks (millions)	$4,551	$4,534	$4,755	......
Security Loans, Federal Reserve reporting member banks (millions)	$3,016	$2,992	$3,531	......
Brokers' Loans, Federal Reserve reporting member banks (millions)	$872	$842	$905	......
Stock Prices (average 100 stocks, Herald Tribune)	$97.93	$97.09	$105.59	$119.58
Bond Prices (Dow, Jones, average 40 bonds)	$97.10	$96.47	$92.32	$87.88
Interest Rates—Call loans (daily av'ge, renewal) N. Y. Stock Exchange	1%	1%	1%	2.0%
Interest Rates—Prime Commercial Paper (4-6 months) N. Y. City	¾%	¾%	1¼-1½%	2.8%
Business Failures (Dun and Bradstreet, number)	233	263	239	519

* Preliminary † Revised ★ Factor in *Business Week* Index

The Business Outlook

NOW that the gold clause decision is out of the way, one more "obstacle to recovery" has been removed—along with all impediments to Administration control of monetary policies. The new banking bill with its provisions for easy credit inflation under Federal Reserve Board control will now get from business the attention that was distracted while the gold decision hung in the balance. In importance to the business community it overshadows all other legislation now under consideration, including the NRA extension, the 30-hour bill, and the relief measure.

Strike Threats Quieted

Threats of large-scale labor difficulties this spring seem to be dying down. Even the A. F. of L. has acknowledged that "widespread strikes would jeopardize progress toward recovery." In steel, the split in union membership between conservative President Michael Tighe and the more radical rank and file locals, recently ousted from the national body, precludes serious disturbances, though there may be sporadic outbreaks. Mr. Green's stumping of motor centers this month, which winds up at Detroit, is designed to convince the members that A. F. of L. leaders are actively furthering their cause, that the Automobile Labor Board should be abolished, that rival unions should consolidate with the Federation for united strength. Out on the circuit Mr. Green will learn just how many members he can count on to support his attack on the Automobile Board. The records say few, but Mr. Green doesn't believe the records.

Steel Check "Temporary"

A slackening in steel ingot production has put a temporary halt to the long rise in our index of general business activity. The trade expresses no alarm over this trend, pointing out that mills producing finished steel sheets and strips are continuing at a steady pace. The decline in steel operations is believed to be due in large part to the code requirement that second-quarter orders cannot be taken before Mar. 1. Furnaces are being banked, not extinguished, in anticipation of further activity for the next quarter. Prices are likely to be unchanged.

This Year Is Different

Every sustained expansion of business activity in a recovery period gives rise to questions as to its genuineness. The sharp slumps of 1933 and 1934 are being reexamined. There are already misgivings concerning 1935. But the abnormal influences at work in the previous years are absent in the current revival. With motor products moving to consumers at a pace twice that of a year ago, it seems doubtful that dealers will be left with heavy stocks on their hands. Assemblies this month are expected to top 360,000, while March schedules are set at over 400,000. April and May may see the peak reached and the usual decline begin, but assemblies will still remain above the 300,000 mark. Steel can count on the motor industry for several months yet.

Construction Promise

Whether miscellaneous lines can do more than provide support for steel in the June to August period seems doubtful, though there is growing optimism that railroad buying for repair purposes and structural steel requirements for public construction will expand in the second quarter and continue into the summer. The growing strength of modernization campaigns, which will be enhanced if the $2,000 loan limit is raised to $50,000, plus the marked improvement in residential construction noted in January, give promise to steel, as well as to other building and plumbing supplies. Machine tool orders have risen for 5 months, reaching in January the highest level since late 1930.

Business Reaches Out

So hopeful of the future are motor concerns that several are branching out into other fields. General Motors is expanding its interest in diesels for railroads. It is also pushing oil burners and air-conditioning. Chrysler is in production with its air-conditioning equipment. Briggs, operating near capacity to meet demands for automotive parts, is considering mass production in its new plumbing ware lines, thus taking advantage of the modernization and housing drive.

Michigan Booms

Michigan's employment record for January will undoubtedly be the high mark for the nation. Instead of the seasonal decline noted in other states, this center of motor activity enjoyed a 17% gain over December and a 24% gain over the previous year. Outstanding industrial gains over December were: automobiles, 24%; tires, 34%; stamped and enamel ware, 36%; sawmills, 29%; structural iron work, 22%; paints and varnishes, 17%; foundries and machine shops, 11%.

Coal and Lumber Up

Soft coal production is running at the highest rate since 1930, with weekly output reaching 8.5 million tons. Hard coal, likewise, is showing a seasonal increase, with employment reaching the highest levels since last May, though below a year ago. Cotton cloth production is expanding to meet the spring demand. Lumber production has increased moderately since the beginning of the year, but is being held substantially below both shipments and orders to reduce stocks. With price-fixing eliminated from the lumber code, control of production becomes a stabilizing factor.

Better Earnings

Corporation earnings in 1934 will reveal the progress made from the red to the black side of the ledger sheet. Very few companies outside of the railroads and utilities failed to better their earnings position last year. Gains will be particularly noted in some of the durable goods such as industrial machinery, chemicals, and metals, while shoe, silk and other textiles, and the baking industries will show unsatisfactory results.

Two estimates of national income for 1934 appeared recently, both reflecting the improvement from the bottom reached in 1933. Colonel Ayres places the income paid out last year at $53.9 billions against $46.9 billions the preceding year. One of the advisors to AAA places the figure at $51.9 billions against $46.0 billions in 1933. Both estimators agree that we have made a comeback to better than the 1932 level.

Sales Above '34 Level

Additional January sales figures confirm the substantial drop from December levels, but hold above a year ago. Rural general merchandise sales were 10% ahead of January 1934; grocery sales 4.5% better. Variety sales (5c. to $1) were 4% below last year's totals. Dry goods prices have declined steadily since last April, thus stimulating retail buying and preventing accumulation of inventory. Estimates of all retail sales for 1934 increased 14% from $25 billions to more than $28.5 billions.

Ordinary life insurance sales of $601.3 millions in January were the largest for any month since January, 1932, and 38% above a year ago.

NRA CODE GRAPHIC ARTS INDUSTRY

BUSINESS WEEK

FEBRUARY 23, 1935

"Go" Sign

Supreme Court's decision that we shall continue to do business in New Deal dollars switches off a warning light on the road to recovery, permits industry to go ahead with plans held back by the uncertainty.

THE Supreme Court, in sustaining the gold policy of the New Deal this week, lifted the cloud of uncertainty that has overhung all phases of business and financial activity since the so-called "gold clause" cases came before the tribunal more than a month ago (*BW—Jan5'35*).

After weeks of agitated suspense from which even the austere Supreme Bench was unable to isolate itself completely, the initial reaction of business was a spectacular uprush in speculative markets. Security prices and values in primary commodities were pushed sharply upward in a sudden release of pent-up buying.

This was short-lived, however, and, with the passing of this phase, business went on about its routine transactions—but with a distinct sense of relief.

Future Fears Dispelled

It is the relief element in the situation that is significant from a business standpoint. The outcome is a positive factor only in that it avoids new revision of the monetary program. A contrary decision would have involved a succession of new attempts on the part of the Administration to effect the same 59¢ dollar by other means, introducing new uncertainties, new unknown quantities. The favorable one carries no implications as to future plans for or possibilities of inflation.

Despite the closeness of the decision (5 Justices finding for the government, 4 dissenting), the Administration was supported throughout in its monetary program, all of which came into issue although the actual deliberations dealt only with the resolution cancelling the contract to pay gold on outstanding contracts.

The Court saw fit to deal separately with the 3 distinct types of cases presented to it. It settled one dealing with private obligations on the dollar-for-dollar principle, saying, in effect, that Congress, acting within its power, made the paper dollar legal for satisfaction of all debts and that private contracts to the contrary cannot stand against that authority.

The government's obligation to pay gold; involved in the claim of a gold certificate holder for the present currency value of the gold promised him, was decided on the basis that he could not use gold were it paid to him. Hence he incurred no damage and was entitled to no relief.

The only doubt left by the Court on any phase of the question was in connection with the case of a government bond holder. There, 4 Justices held that Congress had gone beyond its power by repudiating an obligation but that the plaintiff had suffered no loss, hence could not sue the government for more than the face value of his bond in legal currency. A fifth, Justice Stone, although joining in the final conclusion, submitted a separate opinion holding that Congress could repudiate a government obligation just as it could destroy a private contract—and had done both.

Among the legal fraternity there are some who feel that by introducing the element of "purchasing power" as a measure of possible damages, the Court left the way open for the same question to arise again. What the Court said was that, under present money laws, one dollar is as good as another, which by implication suggested that at some future time there might be gold dollars and that they might be of superior purchasing power to paper dollars.

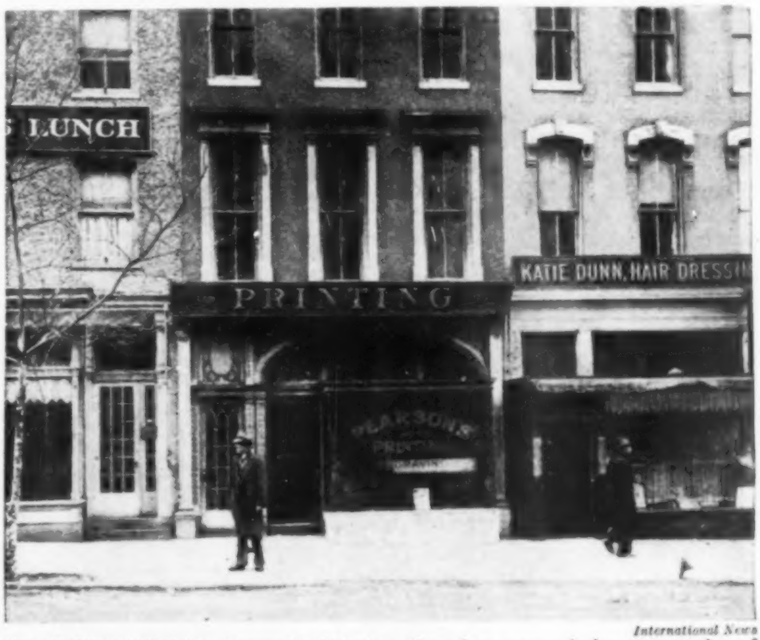
Justice Stone expressed regret that this consideration was let in, feared that it would raise in the minds of gold clause bond holders hopes of a premium payment at some future time. He hinted strongly that any such surmise should be dissipated by new legislation designed to remove the doubt.

No Patching Planned

Administration leaders indicated no disposition to hurry about making even minor alterations in the law to cover this angle of the gold issue, however. For the time being they are content to depend upon the immunity of the government from suit on the matter.

Seldom in the history of the Court has its deliberation assumed a greater prominence in business affairs. Since introduction of the test cases, the eyes of the business world here and abroad have been focused on the shabby and soon-to-be abandoned quarters of the Court in the Capitol.

There was never serious thought that



International News

NO HIGH-HATTING—Pearson's Printing Shop has none of the august airs of the Supreme Court, but the two are good friends—in a business way. Pearson's printed the momentous gold clause rulings, as it has many other Court decisions.

reversal of the government's case could overthrow the New Deal dollar and lead to reestablishment of the old \$20.67 gold basis, although early speculative flurries, particularly in foreign exchange markets, had been predicated upon this possibility.

Washington had given definite assurance that plans were ready for the immediate repair of any holes shot in the money program by the Court. Secretary of Treasury Morgenthau announced more than a week ago that the external value of the dollar would be held at the 59¢ level regardless of what the Court said. This was accepted to mean that the same stability would be preserved internally.

Suspense Increased

Nevertheless, business has waited upon word from the Court, fearing above all else an outcome that would precipitate new uncertainties and put further impediments in the way of the incipient business recovery. Each weekend for the last month has brought new intensity to the suspense as business interests keyed their plans to the Monday decision session of the Court. In recognition of this extraordinary interest in the outcome, the Court violated all precedent in announcing on two successive Saturdays that no decision would be handed down on the following Monday. So the absence of such announcement a week ago was consequently taken to mean the Court was ready. As a result, business reached something like a standstill on Monday morning ahead of the noon decision hour.

The first solemn pronouncement signalled a release of pent-up anxiety that found its expression in a few hours of frenzied activity in speculative markets. That passed, there was an anticlimactic reaction and a sober returning to everyday things.

Washington suspended other activities for the decision day. The important NRA bill intended for introduction in Congress was put over. About the President gathered his financial and legal lieutenants, his congressional leaders, ready to start enactment of the program prepared to circumvent defeat on any or all phases of the gold cases. Upon word of the outcome, the President expressed "gratification" and went for a swim.

Oil Agreement

Nine oil states propose compact but its future is doubtful.

REPRESENTATIVES of 9 oil states (Tex., Okla., Calif., N.M., Kan., Ark., Mich., Colo., Ill.) agreed to a production compact in Dallas on Feb. 16. However, there remain enough "ifs" to convince Oil Administrator Ickes that he was right in booing the possibility of any real estate control (*BW—Jan19'35*). First, sanction by Congress of this interstate petroleum treaty is necessary. Then, legislatures must enact laws, and who can say what these statesmen will do? Underlying all is the fact that even the suggestions of the meeting were weakened to a watery consistency through necessary compromises.

All Depends on Texas

Texas holds the whip hand through its immense producing possibilities. Gov. E. W. Marland of Oklahoma admitted that the future of the pact "depends on the good faith of Texas." Gov. James Allred, of Texas, beat down demands for price control through production allowables based on market conditions, won a provision that the agreement would refer to physical waste only. A fact-finding body would diagnose the ills of the oil industry and "recommend" curatives. Each state would be free to make its own proration laws. The pact would become operative with ratification by 3 of the 5 big producers (Tex., Okla., Calif., Kan., N.M.).

The Cole Congressional Committee is pleased with the result. It is strong for control by states. State-righters hope that the move may weaken Mr. Ickes' demand for strong federal supervision. But the hated Ickensian voice rang in the ears of the compact delegates as they departed from Dallas: "Who but the federal government can enforce an agreement between states?"

Air Scrip

Airmail rates influence transport lines' stand on mileage book plan.

TO HEAD off an air passenger rate war which it sees on the horizon, the Aeronautical Chamber of Commerce suggests an interchangeable mileage book.

American and affiliated lines are already offering a \$250 mileage book at 15% discount, pay agents 5% to book passengers, while last summer Eastern began its fare-and-a-half for round-trip excursions. There is no restriction of scrip in the code and virtually no limitation on what the transport lines may do.

However, there is an opposition wing in the industry which doesn't like the 15% discount in this scrip suggestion and which holds that passenger rate cuts will invite mail rate cuts. So the A. C. of C.'s new formula is meeting trouble.

It is the companies which got a fairly good break on the temporary mail contracts which are opposing lower passenger rates; those which didn't do so well at Washington are out to get passenger volume to help balance up. Thus, the most enterprising scrip seller is American which holds Mr. Farley's prize lemon, the Chicago-Fort Worth line at 8¢ a mile. United, with some of the more lucrative contracts, is counted on to stand by the idea of keeping passenger fares up to about the cost of railway plus Pullman.

Acme

NRA JURY—The long-postponed airing of NRA's sins of omission and commission is promised through this Senate Judiciary subcommittee: Left to right, Senators Borah, King (chairman), McGill. The President's new legislation extending NRA may be deeply affected by the Congressional opinion created by the subcommittee's hearings on "monopolistic tendencies in codes"—a euphemistic way of tearing the whole cover off NRA. The "21 charges" cited for the subcommittee go all the way from demanding a return to the anti-trust laws to condemning the "tyranny" of code authorities.

Wide World

BUSINESS CALL—Gen. Robert E. Wood (right) calls at the White House on his appointment from the Business Advisory and Planning Council to advise the President on work relief spending. With him are Henry P. Kendall (left), Council chairman, and Secretary Roper, right in the center of the picture.

Secretary of Business

General Wood's appointment as counsel on government spending is a coup for Mr. Roper, who may be representing business wisely if not too well.

APPOINTMENT of General Robert E. Wood, president of Sears, Roebuck & Co., as chairman of the special committee to advise the government on spending the gigantic work relief fund is another gesture by the President to convince private industry that its welfare is considered by the Administration, and that, in Commerce Secretary Daniel C. Roper, it has a representative in the Cabinet whose suggestions carry weight with the President. For Wood was taken to the White House by Roper.

Despite the highly advertised but slow functioning Business Advisory and Planning Council, for which Roper drafted a host of prominent business brains to help the New Deal, there had begun to grow up the suspicion that Roper just wasn't accomplishing much.

Inside his department there were many evidences that things were being allowed to slide downhill. Shipping was rather a mess. The Bureau of Foreign and Domestic Commerce, built up by Secretary Hoover until it was almost of cabinet size in itself, had first been disintegrated, to get rid of the Hoover personnel, and then become a political football. And so on.

Incidentally, business men are like ordinary people. They like a fighter. And Roper did not fight when the politicians smashed his reorganization of the Foreign and Domestic Commerce Bureau, demanding and receiving Willard Thorp's scalp.

Then the Business Advisory Council did not seem to get anywhere. It could seldom agree. Naturally enough. It could not have plans ready for the legislative reforms desired by the government, such as unemployment insurance.

"Why," demanded critics, "did not Roper, as the representative of business in the cabinet, take the leadership in forcing this Business Council, not only to act, but to have conservative and satisfactory bills ready for Congress, instead of leaving all the planning to the radical fringe of the Brain Trust?"

Well, there are several answers to that. Perhaps the easiest one is that if Roper had attempted to act, as individual business men declare in private conferences they wanted him to, he would not be in the cabinet right now. He would have been thrown out long ago, and in his place, in all human probability, would be someone either far less satisfactory in his views to business, or far more inept in accomplishment. For Roper, as perfectly demonstrated in the selection of General Wood to head a committee to advise the government on such a tremendously important thing to business as the spending of five billion dollars, does occasionally accomplish something.

Where the Surprise Comes

And the fact that he ever accomplishes anything is the surprise, not that he does not accomplish more. Let's look at the picture coldly.

There are 10 cabinet members. If they were rated in the order of their importance of the White house, and the rating were done by a referendum of Washington newspaper and magazine writers, Roper would be in the lower 3 along with Swanson and Dern. But the Navy and War secretaries are not trying to do anything except run their own departments, if Swanson's efforts to get a bigger navy are not included. (And the President is in rather complete sympathy there, which does not make the job too difficult.)

Probably the referendum mentioned would put the other 7 cabinet members in this order: Hull, Farley, Morgenthau, Ickes, Perkins, Cummings, Wallace. None of the first 3 ever figure in the scales, with rare exceptions, on any controversial point affecting the Department of Commerce. But the next 2, Ickes and Miss Perkins, can be counted on to oppose any move toward the conservative side which Roper might suggest. With a virtual certainty that they would be joined by Wallace.

And, far more important, they would be not joined but led by the Tugwells, the Frankfurters, the Cohens, the Landises. Not to mention Mrs. Roosevelt, whose strongly held views are much further left than those of the President.

They're Just Advisers

Of course, what saves the situation for Roper is that the President is actually President, and not just chairman of the cabinet or a group of advisers. The cabinet does not vote. It merely advises. Hence the importance of stressing the relative amount of influence exercised by the cabinet members. It is influence with him that counts, not the position of the cabinet member. And Roper is pretty far down the list.

In a private talk, where he is not worrying about the repercussions of anything he may say, Roper is mighty persuasive. He has a keen political mind. His judgment has been proven good for many years. He climbed aboard the Woodrow Wilson bandwagon so early in 1912 that there was plenty of room. He worked under McAdoo in the Treas-

ury. But it was not only loyalty to McAdoo in 1924 that made him oppose Al Smith. He knew his South so well that when he saw the nomination of Smith was inevitable in 1928 he threw up his hands and quit. He was on board the Roosevelt bandwagon in 1932 before the Jackson Day dinner, seated so firmly that some big figures and heavy contributors who climbed aboard later were unable to dislodge him, try as they would—and did.

Skilled Maneuverer

Roosevelt got to know him in the Little Cabinet of Wilson. Learned to respect his political cunning. Roper is a master at wirepulling—at maneuvering—at moving indirectly toward his goal—at avoiding the slightest external sign of friction in the camp. All of which Roosevelt knows, and appreciates.

All of which also explains why he is still in the cabinet. Roper wants to stay there. He likes it. When he differs in judgment with the President he smiles assent and carries out the orders. He does not even dissent if he realizes—and he is very good at such appraisals—that the cause is hopeless.

Not 10 men in Washington would be able to tell you, in the strictest confidence even—just what are the issues on which Roosevelt and Roper have differed. Lots of people could make good guesses. But they would be pure guesses. Perhaps accurate, for the points of view of both men are well known. However, the extreme probability is that Roosevelt and Roper have not come to an open dispute on any issue. For Roper would know he had no chance on that issue, and would not even have forced the argument.

Which is not the sort of attitude which arouses enthusiasm among business men who think the government is trampling them down. But is the only sort of attitude which would have kept Roper in the cabinet, or, even more important, have kept the President consulting him.

Let some critical business man, who thinks Roper too timid, ask himself how long he would tolerate a subordinate who, knowing the executive's mind was fixed on an issue, kept wasting his time with arguments attempting to change it. Roper is not a swashbuckler. He is more like a medieval cardinal. And business would be wise to do the best it can with him, things being as they are.

Used Car Reforms

New York tightens control of dealings in old automobiles.

SISTER cities will watch the operation of New York's new rules destined to take some of the *caveat emptor* out of the used automobile business. The regulations are instituted by the Commissioner of Licenses.

Specific attack is made on the unbacked guarantee. Bills of sale or other evidence of transfer are compulsory, must carry identification of the car by numbers, etc., its selling price and full details in case of time payment, allowance, and identification of trade-in, if any. Such documents may not designate the sale on an "as is" basis. The substitute phrase is a forthright, "This car is not guaranteed." If the term "This car is guaranteed" is employed, the dealer must specify details of the guarantee with any exceptions; this statement must be signed by both buyer and seller.

Running Out Run-Outs

The run-out dealer—he who buys a car on time, sells it and skips without troubling to meet overhanging obligations—can't be controlled by one state because he usually moves into another. But the New York License Department does the best it can by revoking or suspending the permit, or fining any dealer who buys from a private person and fails to meet notes, post-dated checks, deferred payments. The old alibi that enthusiastic salesmen make claims unauthorized by the employing dealer also is scotched. Licensees are held responsible for acts and statements of all representatives whether on or off the premises. Code violations will call for disciplinary action.

Bus Climb

In production, operation, and new equipment orders, 1934 was a banner year for the bus industry.

EVERY curve in every chart of vital statistics in the bus industry moved upward in 1934, making it the best year since 1929. The purchase of 8,401 new chassis and 8,470 new bodies was only a little short of the 1929 record, and almost equal to the combined purchases of 1932 and 1933. *Bus Transportation*, in its annual survey, counts 108,000 buses owned, including 70,000 buses used in school service, the largest total in years. The average age of these buses, it has also discovered, is 4 years, which is pretty old for a bus. So plenty of replacements are in sight if mileage and revenue figures keep up.

Buses handled a greater volume of business than at any time since 1929. Fixed route carriers reported earnings of $310 millions, compared with $283 millions in 1933. Imposing returns were earned by many companies, those on the Pacific Coast where operations fared best reporting average earnings of $3,148 on a capital investment of about $20,000 per bus.

In the intercity field, significant data

CHESTER DAVIS — The administrator of turbulent AAA, which until its recent "purging" was noted as a concentration vat for Brain Trust "cures." Mr. Davis himself plans to leave AAA July 1.

assembled by careful sampling in the *Bus Transportation* survey are:

	1934	*1933*
Revenue per bus........	$14,773	$11,757
Revenue per route mile..	$713	$607
Net income per bus.....	$2,206	$1,078
Average tax per bus.....	$1,598	$1,063

In the city field the following data are important:

	1934	*1933*
Revenue per bus........	$7,831	$6,536
Revenue per route mile..	$9,117	$7,221
Net income per bus.....	$90	d$482
Average tax per bus.....	$696	$577

d—deficit

Intercity operations employ 3.48 men per bus, 5.09 per 100,000 bus miles; city buses use 2.73 men per bus, 6.56 per 100,000 bus miles. In the intercity field operating costs represented 61.74% of the total revenue and in the city field 71.62% of income.

More School Buses

The story of the school bus, which many people hear about only when one gets caught in a blizzard, is told in figures like these: School authorities spent $49 millions last year to transport 2,570,000 children to and from school by bus. Over 64,000 buses were used solely for this purpose, and 6,000 more were chartered for the 2 or 4 trips daily. An outlay of $10 millions for 4,582 buses last year smashed all buying records.

"You Flatter Us," Says Detroit

Automobile men plan caustic reply to Henderson report which exaggerated their technological achievements.

THE automobile industry intends to make caustic reply to the Henderson report. If present determination holds, the rejoinder will dissect the report paragraph by paragraph. The automobile men think their document will be devastating.

A major attack will be made on the section which described technological progress in the industry. That material, the automobile men say, was obtained, not from authoritative sources, but from workmen and straw bosses. It is, engineers in the plants remark, so inaccurate as to be ridiculous. Apparently the Henderson commission's specific avowal that it wholly approves such progress does not mollify the industry's annoyance. The idea seems to be to prove conclusively that the industry has not been nearly so efficient in substituting machinery for men as the commission and the admiring public believe.

Resented also is the conclusion that the shift from higher priced to lower priced cars has displaced labor, because more labor goes into the bigger cars. Refuting this, the industry cites its presentation to the conference of code authorities a year ago. At that time, the industry said while more labor used to be used on higher priced cars, that was true no longer.

Man-Hours Unchanged

"The industry has compensated for this decline by increasing the labor required in producing lower priced cars by making them better and more modern. As a result, actually there has been no aggregate reduction in the labor required for the average car produced in 1933 as compared to 1929."

In support of this statement, these figures were offered, showing man-hours per composite car produced by factory hourly employees: 1929—140; 1930—140; 1931—134; 1932—165; 1933—141.

The report asserts that 50 hours of labor have been eliminated since 1929 from manufacture of the underbody of the car and 48 hours from the top (one-piece turret top). Body makers say there never have been 50 hours of labor at any time in the building of a mass production body. Moreover, 47 parts which made up the top assembly in 1929 are listed and the inference is that now there is the one-piece turret top. This isn't the case. There are a number of parts in addition to the big stamped roof.

The assertion that "the 1929 labor cost per door is estimated at $4" is called absurdly high—if that were right, the cost of the body would be as much as the entire car sells for. Actual labor saving on the top compared with 1929 is put at one-half hour.

"All-Steel," Yet Some Wood

The statement that "at present there is a complete elimination of wood parts (from body)" isn't true. There isn't such a thing as an all-steel body minus wood. Chevrolet has reduced amount of wood in its body very little since 1929. The Chrysler all-steel bodies have some wood in them.

One body manufacturer, says the report, was able to wipe out his entire wood mill, which in 1929 employed 3,000 men. Surely, but there has been an increased use of steel, and of the labor required to produce, fabricate, and weld it.

The report makes reference to a reduction of $30 in body costs from 1929 to 1935. The industry asks how about reduced retail prices since then, and reduced profit margins, and reduced com-

The Business Record, State by State
Per Cent Gain or Loss from 1933 to 1934

States by Regional Groups	*Passenger Car Sales*	*Household Refrigerator Sales*	*Electric Power Production*	*Life Insurance Sales*	*Heavy Construction*	*Value of Checks Drawn*
New England	+14	+1	+5	+3	+71	+10
Maine	+28	+24	+5	+12	—17	+16
New Hampshire	+20	+25	+5	+7	+20	+18
Vermont	+30	+6	+2	+11	+247	+18
Massachusetts	+12	—2	+3	+2	+88	+11
Rhode Island	+10	—13	+7	+3	+62	+5
Connecticut	+13	+6	+9	+1	+62	+8
Middle Atlantic	+10	+3	+6	+9	—17	+5
New York	+2	—8	+3	+8	—3	+4
New Jersey	+8	+18	+10	+12	—57	+3
Pennsylvania	+21	+18	+10	+9	—6	+13
East North Central	+30	+44	+11	+11	+50	+19
Ohio	+27	+32	+9	+14	+17	+17
Indiana	+32	+55	+12	+14	—4	+19
Illinois	+28	+50	+8	+7	+72	+12
Michigan	+28	+61	+18	+15	+209	+59
Wisconsin	+45	+19	+8	+10	+51	+13
West North Central	+30	+48	+4	+9	+16	+11
Minnesota	+22	+20	+5	+6	—14	+6
Iowa	+42	+48	+3	+16	+101	+26
Missouri	+22	+44	—7	+9	+3	+10
North Dakota	+46	+72	+14	+4	+108	+11
South Dakota	+48	+71	+15	—6	+280	+11
Nebraska	+33	+66	+10	—6	+55	+17
Kansas	+36	+77	+12	+20	—45	+17
South Atlantic	+40	+65	+0.3	+18	+44	+18
Delaware	+18	+32	+10	+17	—46	+18
Maryland	+23	+41	—6	+20	+151	+19
District of Columbia	+29		+16	+14	+181	+2
Virginia	+41	+49	+3	+13	—7	+17
West Virginia	+44	+78	+6	+23	+146	+22
North Carolina	+57	+48	—4	+17	+26	+28
South Carolina	+36	+77	+4	+11	+286	+25
Georgia	+38	+148	—8	+16	+23	+19
Florida	+49	+66	+9	+30	—33	+22
East South Central	+46	+83	+11	+5	+183	+20
Kentucky	+27	+35	+10	+1	—6	+20
Tennessee	+41	+174	+20	—4	+371	+18
Alabama	+76	+73	+6	+10	+569	+20
Mississippi	+50	+56	+6	+6	+68	+27
West South Central	+35	+43	+6	+15	—2	+16
Arkansas	+36	+68	—18	+5	+58	+24
Louisiana	+43	+32	+11	+14	+3	+7
Oklahoma	+36	+42	+3	+21	—5	+20
Texas	+33	+42	+7	+16	—10	+19
Mountain	+66	+43	+4	+21	+137	+24
Montana	+62	+49	—6	+18	+1,228	+34
Idaho	+108	+93	+15	+19	+85	+32
Wyoming	+53	+66	+4	+25	+48	+21
Colorado	+59	+25	+10	+25	+28	+20
New Mexico	+69	+43	+9	+19	+4	+31
Arizona	+79	+60	+16	+25	+4	+34
Utah	+46	+35	—14	+10	+32	+22
Nevada	+85	+27	+32	+31	+33	+57
Pacific	+23	+28	+7	+9	+9	+12
Washington	+39	+56	+9	+16	+307	+21
Oregon	+41	+107	+4	+5	+155	+22
California	+18	+13	+6	+9	—25	+11
UNITED STATES	+26	+29	+6	+10	+27	+9

CHECK YOUR SALES RECORDS—This table, showing how business in the individual states shapes up in a comparison of 1934 with 1933, provides a measuring stick. Measurers should remember that some of these remarkable rises in 1934—particularly in the South and West—also reflect remarkable depths in 1933.

modity prices? The cowl, windshield, and pillar parts are of one piece as against several pieces formerly, but they cost plenty to produce. And where there is much talk about simplification of parts and elimination of labor thereby, many parts have been added to cars in recent years—improved radiator grilles, more cylinders, knee action, controlled ventilation, just to mention a few. These parts cost money and added man-hours.

Reference is made to the amount of human labor eliminated by automatic polishing and buffing machines. True, car hardware makers point out that they employ more men today than in 1929, the reason being that far more plated parts are used on cars now than then, more ratchets, knobs, and other gadgets which have to be plated and polished.

The speed-up, so harshly criticized in the Henderson report, has been accomplished by perfection of arrangements, such as devising conveyors which bring the work to the man's hand, to give one example, rather than by driving men inhumanly, the automobile engineers assert.

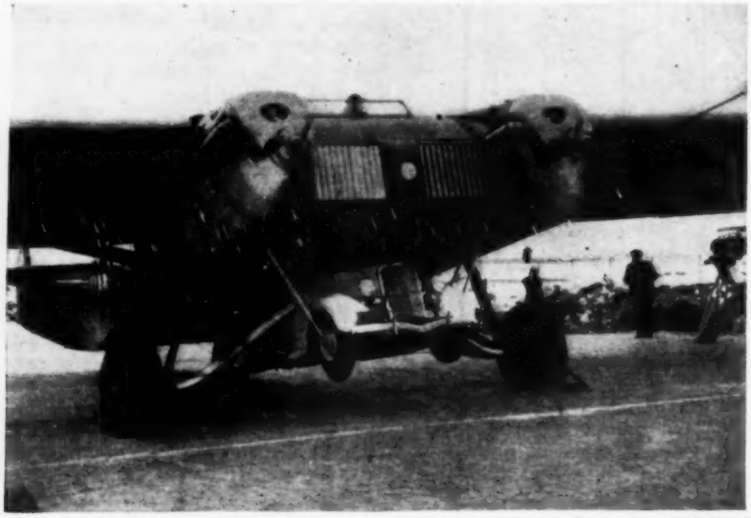
Wandering "Gas" Taxes

Revenue program of hard-pressed state legislatures revives the old battle to spare the motorist and spoil the misuse of the "easy" gasoline tax.

THE automobile industry and allies, as well as state highway departments, are wondering what will happen to state gasoline taxes after the 44 state legislatures meeting this year get through providing revenues for "essentials" plus their pet projects. The anxiety is founded on the experience that gas taxes are easy to raise—and to divert to purposes for which they were not originally intended.

Nineteen states have reduced license fees in the last year; not one of them has even gone through the motions of trying to lower gas taxes. Since 1929 such taxes have been advanced ½¢ to 2¢ a gal. in 14 states. In no state is the tax less than it was 6 years ago. Georgia takes a prize for a 1¢ drop in 1933, but the honor is dubious when one finds the tax still is 6¢. In Tennessee and Florida the tax today is 7¢ a gal. in 6 states it is 6¢, in 8 states 5¢. This doesn't take account of other taxes which, if added to the state tax, amount in some sections to more than 100% of the wholesale gasoline price.

Although the size of the gas taxes is worrisome, it isn't causing interested parties half as much headache as their diversion from road-building and maintenance, its original excuse. In 1933 a total of $99.8 millions of special motor tax revenue ($55.7 millions from gas taxes, $44.1 millions from weight taxes and registration fees) was diverted, according to the U. S. Bureau of Public Roads.



Wide World

TEST FLIGHT—An airplane carrying an automobile in its talons can put the starting quality of the automobile's fuel through a wide range of temperature conditions in a few minutes. This was Sun Oil Co.'s idea in trying out the experiment—and a very good publicity idea, too.

Where has the money gone? In Texas 25% and in Ohio and Georgia 1¢ a gallon went to the schools. The District of Columbia put 100% into its general fund; in Florida 1¢ a gallon was used for the same purpose. New York diverted 1/30¢ to the New York City general fund and 10/30¢ to the state general fund. Two cents a gallon in Wisconsin was allotted to unemployment relief. New Jersey earmarked $5 millions for its cities and $90,000 for inland waterways. New Mexico spent $15,000 on support of fish hatcheries. Maryland poured 2¢ a gallon into its state maintenance fund and 1/10¢ into the City of Baltimore. In South Dakota 50% was devoted to rural credits. Louisiana made a 3-way "divvy" of part of the tax melon: ½¢ to education, 9/20¢ to the Port of New Orleans, 1/20¢ to the Lake Charles Harbor District.

Diversion Concerted

The extent of gas tax diversion is difficult to determine because much of it is effectively concealed. There are 4 kinds of diversion today: (1) Where it is possible under the basic state law, as in Texas; (2) where legislative enactment permits use of gas taxes for other than road purposes; (3) where other state departments borrow road funds on the assumption they will be paid back, and this isn't always done; (4) where money allocated to counties by states for purposes of road development is turned to other uses, sometimes without warrant of law.

Congress tried to check the evil in the Hayden-Cartwright Act with a provision that as much as one-third of the federal aid allotment for roads would be withheld from states which diverted motor tax revenues. The idea is to permit the Bureau of Public Roads to trace diversion by auditing state books. Some states are proceeding against diversion through constitutional amendments. Missouri did so as far back as 1928; Colorado took similar action in the November election last year. Amendments proposed in Ohio and Michigan were defeated, partly because the anti-diversion proposal was linked up with other tax plans.

Counting the Cost

Effects of diversion, as pointed out by those campaigning vigorously to stop it: (*a*) It subjects motorists to double taxation, imposing on them as a class a disproportionate share of the cost of government; (*b*) it endangers the road bonded indebtedness of the states; (*c*) it jeopardizes the large investment in highways and adds to driving hazards, since the tendency in states where diversion is practiced has been to neglect or defer maintenance (in Oregon, for example, diversion of 1¢ a gallon would cut ordinary maintenance in half, diversion of 2¢ would destroy it, diversion

of 3¢ would knock out extraordinary maintenance); (*d*) it encourages higher motor taxes, taxes out of ratio to properly ascertained road costs and motorist obligation for those costs; (*e*) it encourages the use of road funds as a pork barrel for political adventures; (*f*) no matter how deserving other governmental needs may be, diversion tends to delay the overhauling of tax structures in the interest of stability, dependability, and equity.

Rug Rebate Row

Carpet makers, disillusioned about economy of chain business, cut discounts; chain buyers strike.

LAST week's spring opening in the rug and carpet trade was featured by a pitched battle that found advocates of the old-line method of distribution (from manufacturer, to wholesaler, to retailer) on one side, and the modern chain store and syndicate buyers in the opposing line of trenches. NRA history eventually might record it as another skirmish in the battle of codes.

The carpet and rug manufacturing industry, like most others, tried to write into its code (*#202:BW—Feb2'34*) some provisions that would cure existing trade abuses, including one for "open price" filing. Since then, members of the industry have had an opportunity to study the effect of these provisions on their operating results.

Last year most of the important manufacturers gave chain, syndicate, and pool buyers a volume discount of 7%, because they usually placed larger orders than were obtainable from ordinary wholesalers. Manufacturers, however, struck a snag when they found that the shipping orders received from most of the "volume" buyers did not specify "volume" lots, but instead small quantity assortments for separate shipment to different units within the syndicate. The cost of handling that type of "volume" business actually was far in excess of what it cost them to make large size shipments to regularly established wholesalers.

Armed with figures to prove that they were right, manufacturers opened their 1935 spring lines with price schedules that provided for a maximum chain rebate of 4%, payable, if the purchases of *individual stores* reached the required volume. While the old-line wholesalers felt they had won a victory, chain buyers decided to go on a buyers' strike, took their case meanwhile to the Institute of Carpet Manufacturers and to the code authority. Members of the Institute held a special meeting and at its close "each individual member affirmed his determination to adhere strictly to his volume allowance schedule as filed." Similarly, after its special meeting the code authority announced "that all schedules were in conformance with the provisions of the code." At last reports, the mass buyers were getting ready to take their case directly to NRA headquarters for a decision.

Meanwhile, most of the manufacturers are not greatly disturbed by the "strike" of the big buyers. Last week some of the largest producers reported that they had booked more business than during any opening in 5 years, and several were working out substantial increases in their production schedules.

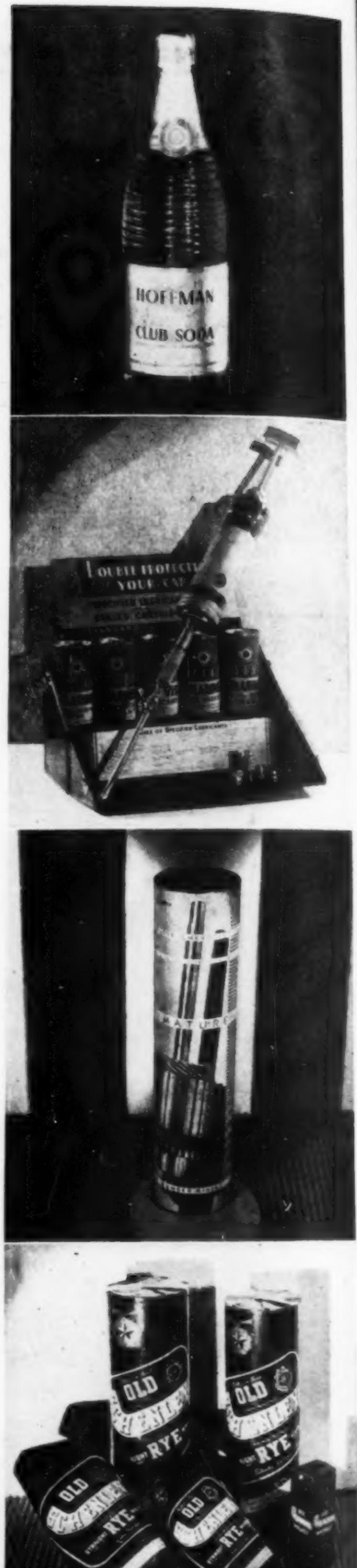
Some wholesalers with well established retail connections increased their commitments, because they figured that the chains are less likely to run bargain-price sales, that independent retailers will consequently have a better chance. Ample stocks should be available for them, while some of the chain units are kept waiting because of delay in ordering caused by the strike.

Drug Bill Upset

Industry forces and Administration gird for public hearings unexpectedly ordered on Copeland bill.

NO MORE surprising upset in the whole succession of tactical reverses which have characterized the erratic history of the 2-year fight for new food and drug legislation has yet occurred than that which Senator Royal S. Copeland encountered last Wednesday (*BW—Feb16'35*).

Armed with the latest draft of his bill, Committee Print No. 3, he went



PRIZE PACKAGES—Four of the containers named by the American Management Association as winners of awards for distinctive merit in packaging design and development. The Hoffman Club Soda bottle, entered and used by Hoffman Beverage Co., won first place in the glass container class and the Wolf award "for the best package developed and placed on the market in 1934." Among the other winners (top to bottom) were the Standix Cartridge Lubrication System Kit, entered by Lubrication Corp.; Genuine Chevrolet Armature Canister, entered by Sefton National Fibre Can Co., and (in the family-of-packages division), the package for Old Schenley Rye Whiskey, entered and used by Schenley.

that morning to the meeting of the Committee on Commerce (which he heads), confident of clear sailing. After a fortnight of hectic consultation, officials of the Food and Drug Administration and chief industry representatives had swapped point for point, issue for issue, until they had arrived at a compromise version which both camps were at least grudgingly willing to accept. After perfunctory consideration, committee members were scheduled to report the bill out, a message from the President was expected to speed consideration and enactment.

Drug Men Win the Day

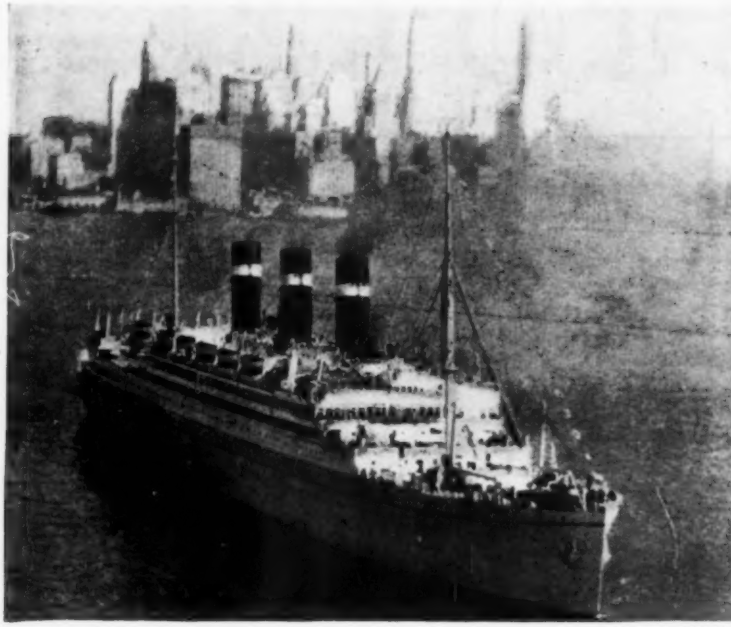
But the schedule broke down right at the start. The day before, committee members had heard from home—more precisely, from the Proprietary Association whose bill for a proposed revision of the law, H. R. 3972 (*BW—Jan19'35*) had been disregarded and whose attorney, James F. Hoge, had not been consulted at the Senator's horse-trading parties. Result: the committee refused to approve the bill, voted instead to hold public hearings.

Because he presented his constituents' demands with considerable vigor, Senator Clark was named by Committee Chairman Copeland to preside at the hearings. Food and drug fight fans have since found several other reasons to explain this puzzling appointment of a man whose opposition to the bill has thus far been unrelenting. He is a high-pressure parliamentarian, can rush the hearings through in 2 days (other hearings dragged over a total of 11 days). Industry representatives think he will be able to choke off propaganda of the consumer-agitation type which was the one thing they feared about hearings. Then, too, Copeland may have reasoned that the experience could not heighten Clark's opposition, might actually modify it. Senators McNary and Caraway, who have already survived two such sieges, will sit on the subcommittee.

No Holds Barred

One thing is certain; at the hearings, which are scheduled for early March, all deals will be off and no holds barred. Both camps will present original demands in all their pristine vigor. But the Administration will probably consider itself fortunate if it comes out of the skirmish with 4 features of the bill still intact. It anticipates a strong fight (1) to place the regulation of advertising in the hands of the Federal Trade Commission with no criminal prosecution, (2) to eliminate provisions requiring formula disclosure on the labels, (3) to provide a definite ban on multiple seizures rather than injunctive protection, and (4) to require that drugs must measure up only to U.S.P. standards of identity rather than "standards of strength, quality, or purity."

Only 5 changes of significance were



Wide World

MAIDEN VOYAGE—America's largest cruise ship, the 27,000-ton *Columbia*, steams out of New York harbor "booked solid" on its first cruise under the stars and stripes. The vessel, formerly the *Belgenland*, was acquired from the Red Star Line by Panama-Pacific. Completely reconditioned by its new owners, the 12-year-old ship goes into cruise service to the West Indies and South America.

made by Senator Copeland in Committee Print No. 3, which issued from the Government Printing Office less than a week after Print No. 2 with its dozen important revisions (*BW—Feb16'35*). The new amendments are:

(1) All mention of "regulation" has been eliminated from the statement of purposes in the title of the Act. The tag line, "and for other purposes," has also been dropped.

(2) To obtain an injunction restraining enforcement of any regulation, a petitioner would have to prove only likelihood of damage, not the inevitability of it.

(3) The minimum fine of "not less than $100" for any violation has been eliminated.

(4) In the case of multiple seizures, provision has been made for the adjudication of all charges, regardless of locality, in the federal district court nearest the defendant.

(5) Danger "to health" (general) rather than danger "to the user" (specific) is established as the yardstick of cosmetic adulteration.

Industrious Leisure

Increase in spare time engages attention of business as well as of sociologists, leads to staging of a New York hobby show to launch the drive on new leisure market.

LABOR is driving for shorter hours and higher pay, with the blessing of the Roosevelt Administration. There are millions in the new leisure class created by unemployment. Continued development of labor-saving machines means that Americans are going to have even more time to kill.

Here is a situation that worries sociologists and interests various industries. Both are determined that the surplus of workless hours shall not be employed in stagnant loafing. It is not good for man to bite his nails and think overmuch on his troubles. Industries catering to the leisure demand already are pushing their wares, others observing the signs are wondering whether they ought to move in, preparing sales forces for rapid mobilization.

Stimulating effect of more spare time on certain lines (travel, theaters, book publishing, playing cards, etc.) is obvious. The wider significance of the trend is being capitalized in a trade show to be held in New York's Port Authority Commerce Hall, May 1 to 11. It is called, inclusively, the Hobby Round-Up. Sponsor is the Leisure League of America, which seeks to teach individuals how better to use their spare time, and publishes books on the technique. Participants will be non-commercial organizations devoted to special leisure activities and commercial companies offering equipment. Represented are sports, physical culture, collections, community activities (drama, dance, singing, etc.), domestic arts and crafts, gardening, indoor games, music, pets, photography, reading, travel, and mechanical home workshops.

Sizing Up Volume

Nobody has made a round-up of the leisure industry's volume, one difficulty being acceptable classification. Stamp collectors alone are estimated as high as 9 millions. (Postmaster-General Farley probably thinks there are twice that many.) Wholesale value of toys and indoor games is figured at $75 millions annually, about $6 millions being adult games. Distribution of 70 million seed catalogues annually indicates a business in this field of $70 millions, with perhaps an equal amount of accessory items. Per capita sales of sporting goods is placed at $3, or a total of $375 millions. Sales of photographic products run to $250 millions annually. Book publishing (including pamphlets) has a total yearly valuation of $146 millions. Music publishing contributes $12 millions more. Musical instrument output totals $23 millions. Some $40 millions of prepared dog foods are sold yearly. Sales of bird cages and supplies top $9 millions.

Home Crafts Progress

Mechanization of home workshops with electric lathes, saws, etc., has grown to the point where large companies realize its importance. Leisure craftsmen make all sorts of models and many types of home furnishings. A magazine for home crafts built a circulation from scratch to 50,000 in 2 years. Fractional horsepower motors have taken the drudgery out of many operations—and broadened the market for motor manufacturers. Competition has reduced prices until a home power lathe can now be had for $75. General Electric is now marketing a home-shop lathe. South Bend (Ind.) Lathe Works has long treated this demand seriously. Delta Mfg. Co., Milwaukee, is another big supplier.

Model making approaches the proportions of a boom. Most popular are miniature locomotives with track systems and landscaping. The greatest elaboration occurs in Vincent Astor's 1½-mile (outdoor) "Toonerville System." Top of indoor railways probably is Minton Cronkhite's $50,000 layout at Santa Monica, Calif. Lionel, toy train maker, is going into the supply of parts for model builders. Such short-cuts have reduced the time of assembling a

model locomotive from years to 7 days, reduced the cost from thousands to as low as $29.

Ship model builders are shifting from the tedious construction of full-riggers to yachts and speed boats with tiny motors. In the latter field international races are held. Amateur astronomers now build their own telescopes. Aeroplane models are as popular as ever (especially among boys) with a decided trend toward greater elaboration and motor development. Furniture and housefurnishings of various types are now made on the spot. Especially adept at this are doctors and physicians. Many construct their own "antiques"—complete to the very wormholes.

A Clubby Country

In our fair country, the interest of a considerable number of citizens in any single subject leads inevitably to the formation of organizations and the holding of shows. Model engineers have clubs from coast to coast. Retail stores hold hobby shows in large cities. A recent development is the formation of civic groups for such exhibitions. Procter & Gamble's contests and displays for Ivory soap sculptors are a national institution.

Large concerns are promoting wholesome leisure occupation and employee good-will by model shows for workers. Shop facilities are lent for offtime work, displays are staged, prizes awarded. Toledo Scale was one of the first to organize such exhibitions. Some other companies holding employee model shows are Western Electric at Kearny, N. J., and Hawthorne, Ill.; United Gas Improvement, at Philadelphia; Peoples Gas Co. at Chicago.

Loans to Industry

Moffett sees a quick $1.5 billions in plant modernization.

A CANVASS of 22,000 industrial firms has convinced FHA Administrator Moffett that manufacturers are ready to spend money, big money, for repairs and replacements, but would rather borrow from the banks than from the government. He believes that a guarantee by FHA of private loans is all that is needed to turn the trick.

Banks didn't like the home modernization credit plan at first. Now, says Moffett, they are enthusiastic about it. A pending amendment to the National Housing Act will guarantee industrial repair and equipment loans up to $50,000 each by covering all losses up to 20% of the total amount loaned for this purpose by any institution. On the basis of replies received to his questionnaire Moffett estimates that such plant modernization will generate $1.5 billions worth of business within a short period.

Gas to Burn

Campaign to sell gas heating to Chicago hasn't paid yet but it will be kept going while that Insull contract keeps a surplus pouring in through the pipelines from Texas.

PROMOTING residential consumption of gas for heating purposes and taking out installed equipment of dissatisfied customers (*BW—Sep2'33; Nov3'34*) has cost Peoples Gas Light & Coke Co. of Chicago $2 millions in last 1½ years, and while it has built up an increased demand the results so far are not commensurate with the expenditure.

Nevertheless, Peoples Gas is intent on continuing its campaign because it is faced with the problem of finding a demand for an Insull-contracted supply of natural gas piped from Texas far in excess of Chicago's present needs. This has got to be paid for anyway.

Peoples Gas sales last year aggregated 449.2 million therms, an increase of 169.9 million therms, but only 19 millions of this gain was registered by general customers for residential, space heating, commercial, and industrial purposes. Revenues from that source rose $704,000.

Big Sales at Low Rates

Sales to industries for boiler fuel and other industrial purposes on an interruptible basis at low rates accounted for 103 million therms of the gain, and sales to subsidiaries and other gas companies increased 47.9 million therms. Revenues from those sources increased $1.3 million and $1.1 million, respectively.

Yet, while Peoples Gas spent $1,460,000 last year in its space-heating campaign, including some rather substantial losses on customers' equipment removed, its sales to general customers rose but half that amount. Benefits ultimately should accrue from this drive, the management believes, and no letup is anticipated.

Although gas sales went up $3.1 millions last year to $33.8 millions, this improvement was more than offset by a $4.4-million increase in operating expenses and taxes. Net income of $863,145, compared with $1,960,974 in 1933, was the lowest received in more than a decade.

Beginnings of Troubles

Peoples Gas troubles date back to July 25, 1931, when Chicago District Pipeline Co. (79% owned) entered into a contract with Natural Gas Pipeline Co. of America, then called Continental Construction Corp., to purchase at a point near Joliet, Ill., natural gas at an agreed price.

Peoples Gas and two other then Insull-managed companies, Public Service Co. of Northern Illinois and Western United Gas & Electric Co., entered into contracts with Chicago District Pipeline, conditioned on Illinois Commerce Commission approval, whereby they undertook to purchase natural gas for resale in their respective districts at cost to Chicago District Pipeline plus that company's fixed and overhead charges, limited by terms of the contract.

The contract with Natural Gas Pipeline Co. provides that the portion of the price consisting of the capacity charge payable by Chicago District Pipeline on and after Jan. 1, 1935, shall be calculated on not less than 130 million cu.ft. maximum daily demand, as that had been anticipated as the needs of the companies. However, present demand is only 97 million cu.ft.

Illinois Commerce Commission has entered an order disapproving this contract but, on petition of Chicago District Pipeline Co., a temporary injunction has been obtained against interference. This matter is now before a master. Peoples Gas is endeavoring through Chicago District Pipeline to arrive at a revision of the contract in order to secure approval of the commission and thus avoid protracted litigation.

In the meantime, Peoples Gas is banking on some return on its investment from the 10,000 customers added during 1934, and hopes to have more switch from coal to gas. There are still some 200,000 stove-heated premises in Chicago.

Loan Sharks Back

Hard times for workers are good times for usury, despite the laws.

FOR 30 years vigilant welfare organizations have fought the loan sharks that prey upon wage earners. As early as 1909 a group of these organizations drafted the Uniform Small Loan Act which, with subsequent amendments and improvements, is now in effect in 28 states. Latest to put it in the statutes was Kentucky, where its adoption last summer closed a happy hunting ground for sharks driven out of other states.

Under protection of sane laws have sprung up the legitimate personal finance companies and the personal loan departments of banks. The National City Bank, second largest in the country, is one of the biggest in this field.

However, the depression has given an unexpected twist to what looked like a happy ending to this story. It has recently become apparent that bootleg lenders, operating outside the protective

Business Week

MASS-MARKET FLOORS—Rigid, fireproof concrete floors are now brought to small homes as well as hotels and apartment houses by these pre-cast concrete joists which support cast-in-place concrete slabs. They are cast to span length in concrete products plants, require no specialized construction technique. Lengths up to 18 ft. are easily handled by 2 men. Wood, linoleum, carpet, tile, or other flooring may be used, or the concrete slab itself, patterned, stained, and polished.

laws, have been thriving on the increased financial difficulties of wage earners and taking a heavy toll in suicides and defalcations, leaving nerve-wrecked borrowers and shattered families in their wake. Surety company complaints disclose a hotbed of usurious lenders in the heart of New York's financial section.

Surety companies find their losses mounting on fidelity bonds as bonded workers are driven to steal to avoid collection methods of the money-lending racketeers. The latter have combined the technique of the racetrack bookie and that of the gangster. Touts among the elevator operators and doormen in big office buildings tip off the would-be borrower as to where he can get accommodations. Rates are said to average around \$5 weekly on a \$10 loan. Collection starts with threats to expose the borrower to his employer, but proceeds rapidly to more violent tactics.

Embezzlements and Suicides

Results of such methods are indicated by one conviction of a brokerage cashier for large-scale embezzlement that started with a theft to satisfy a loan shark, the attempted suicide of another debtor, dozens of cases in which victims have been beaten up as a warning to get the money by some means, straight or crooked.

An inquiry addressed by *Business Week* to a group of leading industrial concerns reveals that business has a keen recollection of the bad old times and a keen dread of employees' again becoming involved with "sharks." Replies show that the majority of big employers assume the responsibility for counseling their workmen on financial affairs and, in many cases, provide their own methods of financial assistance to those needing such help. These range from salary advances and personal non-interest loans by the boss to the creation of company credit unions.

Fare Cut Paid

Carolina electric road can prove the Coordinator's point.

If Coordinator Eastman wants a really impressive argument for fare-cutting by the railroads, he should look into the results of the slash from 3¢ to 1¢ a mile made in September, 1932, by the 130-mile electrified road operated in the two Carolinas by the Duke Power interests. Latest reports reveal that passenger traffic rose from around 5,000 a month before the bargain to 50,000 for all the months after—1,000%.

No detailed figures have been made public to show the effect on earnings but it is known that serious losses have been turned into black ink. The road has modernized its rolling stock and more than trebled its passenger service.

Banks That Insure

Lean years have fattened Massachusetts' state-supervised system of insurance through mutual savings banks.

MASSACHUSETTS' unique system of mutual savings banks doing a life insurance business under state supervision, has grown and prospered in the depression years. This year, for the first time since the system was born in the fertile brain of Louis D. Brandeis in 1907, the state division which supervises its operations will be supported entirely out of assessments upon the 23 mutual savings banks, cost the taxpayer nothing.

System Expands

Restricted by law to residents of Massachusetts, these banks now have more than $103 millions of this insurance in force, held by more than 100,000 individuals, increasing at an average rate of $7 millions in new insurance written each depression year. For the fiscal year just ended new insurance totaled $9.3 millions; premiums paid were $4 millions; number of annuities written reached 1200 against 500 in the corresponding period a year ago. Annuity business has recently been growing faster than life insurance business.

The system was started for low-income workers whose weekly-payment insurance under the regular insurance companies figured out at what proponents thought was too high a rate. Fundamental ideas were: (1) to reduce payments by reducing overhead, selling expense, especially agents' commissions; (2) to change the situation whereby, under the usual weekly-payment plans, failure to meet premiums when due left the worker with neither protection nor equity, unless his policy had been successfully continued for a long number of years; (3) to retain in the state the "quick" capital represented by premium payments.

Rates Are Lower

Savings bank life insurance operates on rates declared by state supervisory officials to be some 26% less than ordinary insurance, 50% cheaper than weekly-premium insurance as issued by the companies. Lapsed policies run around 2½% of the number of new policies issued, enormously lower than the lapse ratios of the regular companies. If 6 months' full premiums have been paid into the banks' insurance system, a policy cannot be forfeit or void, must be binding for cash surrender value or paid-up insurance.

One result of all this is that today wage-workers are by no means the only takers of life insurance policies and annuities. To keep risks well diversified, no bank can insure any one person for more than $1,000. But one person can place insurance in more than one bank.

Under the statute, the banks' life insurance departments must be kept strictly separate from their savings departments. Profits of insurance operations, after expenses, reserves and all legal requirements are taken care of, must be paid back to policyholders as dividends. Policies include straight life, limited payment, limited term and endowment forms with provision, subject to approval of the commissioner of insurance, for other varieties. A state actuary performs for the banks the functions which separate actuarial departments perform for the individual insurance companies. In the early years the banks contributed an annual 4% of premium income to a general insurance guaranty fund—in case the insurance reserve of any bank should become impaired. None ever has.

Associated Industries Boosts

At the end of about 14 years the Massachusetts system had only 4 banks in the system with about $20 millions of insurance in force. The jump since then to 23 banks with more than $100 millions in policies has been helped by the active cooperation of the Associated Industries of Massachusetts, which in 1930 gave the plan unqualified endorsement and whose members now finance a field man to explain savings bank life insurance to members. The banks themselves employ no salesmen.

Some Massachusetts employers cooperate by getting insured workers' permission to deduct fixed sums from wages for weekly deposit in the mutual savings banks. When premiums become due, the proper amount is transferred to the insurance department, the rest helps build up savings for the worker.

Massachusetts likes the whole idea but is apt to emphasize the point that this is not state insurance but just a system of mutual life insurance carried on under standard actuarial conditions by regular mutual savings banks.

Realty Prospects

Demand for office space grows. Home shortages and rising rents emphasized in realtors' survey.

DEMAND for office space continues to grow at an accelerated pace, according to the National Association of Building Owners and Managers. On Jan. 1, 1935, vacancies in the 1,946 buildings in 39 cities which it surveys stood at 26.39%, a decrease of 0.53% for the final quarter of 1934. The turn came last

spring when the May survey showed a reduction of 0.2%, first improvement in four years. In October, a second decrease of 0.45% was reported. Five of six geographical areas report improvement; the Southeastern district leads.

Office space under construction is at low figure of 212,000 square feet; the reason—47,087,077 square feet of reported vacancy.

Further shortages in single-family dwellings and apartments, rising rents in all classes of living quarters were reported last week by the National Association of Real Estate Boards in its semi-annual—and traditionally optimistic—symposium of opinions garnered from local boards in 268 cities.

Six months ago, a shortage of apartments was reported by only 20% of the cities; currently, this condition is indicated by 30%. Shortages in single-family dwellings jumped from 49% to 53% of the cities, those in the West South Central and Pacific Coast groups accounting for most of the advance.

The trend of rentals looks like this:

	% of Cities Reporting Increases	
Type of Dwelling	*Now*	*6 Months Ago*
Single family	53	49
Two-family	41	32
Apartments	57	35

Results of a special questionnaire, designed to trace sources of supply for real estate capital, indicate that capital is seeking investment in 37% of the cities (19% six months ago), that loans are seeking capital in 52%. Evidence is adduced from these reports that commercial banks, insurance companies, and financing agencies long inactive in the mortgage field are coming in again but only at scaled appraisals, in preferred localities, or at 30% to 50% of present-day valuations.

Rates vs. Wages

Rail wage cut is just talk unless ICC turns down rate increase.

RAILROAD executives who are talking up a proposal to reinstate the 10% wage reduction will not get action unless the ICC turns down their pending plea for a $170-million rate boost and thereby gives them a fresh case against the $156-million charge that full wage restoration by April 1 will put into that $293-million total increase in operating expenses cited in the rate petition.

If the commission follows the precedent of 1920 when it authorized a 20% rate increase, giving "due consideration" to a $618-million wage award by the Railway Labor Board, the railroads' plea that the $170 millions still leaves them $123 millions short, because business didn't pick up as expected, will not command sufficient sympathy to invite a tussle with the unions.

New Products

New things, new ideas, new designs, new packages, new manufacturing and marketing methods.

A NON-ABSORPTIVE rubber insulation, "Anhydrex," for wires or cables that are subject to partial or complete submersion in water, has been placed on the market by Simplex Wire & Cable Co. It is designed to obviate the necessity of using gutta percha or lead sheathing for safe and satisfactory insulation where water absorption is a factor.

THE Automatic Electric Co. offers a simplified private automatic telephone system of 10-station capacity, in which the use of separate batteries is eliminated so that the central control unit is simply plugged into any 110-volt 60-cycle outlet, making it particularly practical for small business establishments, garages, warehouses.

THE Trimatic toaster now added to the line of Sampson-United Corp. toasts 3 slices at once, has automatic control, bakelite-molded base, and fully enclosed chromium-plated top house.

SQUIRREL cage and slip ring motors of a new type that can be converted quickly from open to fan-cooled, splash-proof, or totally enclosed construction, are announced by Harnischfeger Corp. to help machinery manufacturers and motor distributors to meet varied service requirements more quickly and with a smaller inventory investment.

CONVERTIBILITY is the outstanding feature of the new 2-cu.yd. shovel, Type 801, just announced by the Ohio Power Shovel Co. division of Lima Locomotive Works. It is convertible into a 3-cu.yd. dragline outfit or a 35-ton crane, and is claimed to be equally efficient at all 3 jobs.

HOUSEWIVES who drive automobiles will say that the new Greyhound electric iron has an instrument board, headlight, modern ventilating system, and free-wheeling. R. & R. Electric Corp. will explain that a visible heat indicator in the nose of the iron shows exact temperatures at all times and, like the spotlight in the nose of the handle, prevents blind driving in the laundry; that a switch under the ironer's thumb enables her to shut on and off at various heat readings so that she can maneuver to handle her silks, fine linens, and other light materials on "reserve heat," thus cutting electric bills; that the open-ribbed construction of the bakelite handle provides cooling service. Supporting the "reserve heat" sales point is a claim that Greyhound irons are built with exceptionally high heat-storage capacity.

Business Week

BEATING CORROSION—Plioweld, a new rubber lining developed by Goodyear, protects metal tanks against acids and corrosive liquids. It is sealed to tanks with a non-toxic corrosion-resistant adhesive which welds the rubber to the metal during vulcanization. Plioweld can be used for hot or cold liquids, will not oxidize or slough off, is unaffected by alternate wetting and drying.

Fire Ratings Attacked

Cities now get insurance rates based on defenses against fire. They contend experience should count, as well.

THERE is no fireproof city. In fact, none rates No. 1 with the National Board of Underwriters, whose job it is to classify them, although Detroit comes within 54 points of attaining that distinction with a score of 554. The National Board's rating system works like a golf score. A village with nothing but a bucket brigade scores 5,000 deficiency points and rates class 10. The score and rating come down as adequate water mains and hydrants, efficient fire department and alarm system are provided and fire hazards are removed. Insurance costs for the residents and industries in those towns decline with the score and rating.

Can't Control Weather

A city like Detroit with almost a perfect score for water supply and firefighters reaches a point where further improvement in rating is difficult. It carries 76 deficiency points for climatic conditions because cold weather requires heating and an occasional blizzard makes fire-fighting difficult. Little can be done about weather. It also carries 118 deficiency points for structural conditions, meaning it has a sprinkling of fire traps, scattered blocks of frame buildings, or similar hazards.

San Francisco, rebuilt after the earthquake of 1906 with thought to minimizing future catastrophes, rates best among cities for structural conditions, but its water supply and fire department are not as good as Detroit's, and there might be another earthquake.

Other Cities, Other Hazards

Montgomery, Ala., has inadequate fire department and alarm system. Little Rock's firefighters rate fair and have abundant water but the alarm to call them out isn't of the best. Pueblo, Colo., has a poorly rated fire department that has to contend with serious hazards of both natural and structural character.

So through the list there are factors which the National Board feels increase the risk to insurance companies.

It is this system of rating cities that is under fire by the Public Administration Service on the basis of a study made by Harold A. Stone, executive director of the Bureau of Government Research.

His contention is that besides things like water mains, fire engines, type of buildings, physical and natural hazards, some attention should be given to the record of experience. For instance, he points out that Lakewood, Ohio, which won over all other cities in the Interchamber Fire Waste Contest in 1933 and has one of the lowest loss experiences of any city in the country, has no better classification than Buffalo that has a poor record over a long period. "Why," he asks, "should people in Lakewood pay relatively the same insurance premium as their neighbors in Buffalo where fire losses are more than 9 times as large?"

Lawrence Daw, secretary and manager of the Syracuse division of the New York Fire Insurance Rating Organization that fixes the rates in Buffalo, answers that Buffalo gets its relatively low rate because of its auxiliary high pressure water system for fire fighting. Rates must be based on defenses, not record of losses, because fire losses are unpredictable.

A Moral Hazard

On the contrary, Mr. Stone contends that elements other than physical factors enter. For instance there is the factor of poor firemen with good equipment or vice versa. There is the moral hazard. The city manager of Fort Worth, Texas, estimates that well over half of the fires in his city are cases of arson. The New Orleans fire chief says only a handful of such fires occur in his city.

Leastwise, it seems wrong to him that Fall River and Shreveport, rated respectively 2 and 3, have experienced big losses over the last 8 years while Canton, O., and Columbia, S. C., both rated 5, have much smaller losses.

Economy vs. Speed

Railroad cuts sleeping-car fares to compete with faster trains.

CHICAGO GREAT WESTERN RAILROAD, unable to provide new high-speed trains to compete with faster running time of competitors between Chicago and the Twin Cities, is to bid for passenger traffic on another basis—lower rates.

Effective Mar. 3, tourist sleeping-car service is to be introduced in which the Pullman charge is to be only half of standard rate and in which day coach tickets are to be honored. The rates are to be tried out for 3 to 6 months.

Great Western had suggested this plan to the Western trunk lines committee earlier this year but met with no encouragement; when put to H. G. Taylor, commissioner of Western railroads, he approved it.

Honoring of day coach tickets in sleeping cars is somewhat of a novelty; it is expected to be particularly effective in meeting bus competition. Tourist sleepers are similar to Pullman excepting not so de luxe, nor air-conditioned.

Wide Reading

POWER RATES IN CITIES. *Electrical World*, Feb. 16. Power Commission publishes rate facts for 191 cities of over 50,000 population arranged in order of rank.

ALUMINUM FOILS FOR PACKAGING. *Modern Packaging*, January. Types of foil available; how processed; where used.

IF INDUSTRY GAVE SCIENCE A CHANCE. J. D. Bernal. *Harpers*, February. Science has produced luxuries and necessities far in advance of those we now use. Industry, afraid of the terrific costs of retooling, is holding these things from the market. An estimate of where we might be if science were suddenly given a free hand.

CHILD INFLUENCE IN SELLING. *Premium Practice*, February. Why premiums which appeal to children are a sales stimulant; what children like; samples of premiums which have had wide appeal.

COULD THIS REALLY BE AN "AGE OF PLENTY"? J. George Frederick. *North American Review*, February. "To raise the income of all families now below $2,500 to $2,500 a year would increase consumption by $16 billions, and to add $1,000 to every family with an income below $10,000 would increase consumption by $27 billions. . . . The unfulfilled consumptive desires of the American people at the present time would require a production at least three times the production of consumptive goods in 1929."

GROUP HOSPITALIZATION. William Alan Richardson. *Medical Economics*, January. "Although fewer than 10% of the population are cared for in hospitals in any one year, hospitalized illnesses are so expensive they consume 50% of total annual expenditures for all medical care." Schemes for group medical attention.

REPORTS—SURVEYS

250 IDEAS FOR INCREASING RETAIL SALES. Bureau of Business Information, University of Wisconsin, 40 pp., 50¢. Actual sales teasers which have been used successfully in various parts of the country. Described briefly.

TO HAVE AND TO HOLD. Insurance Company of North America. Geare-Marston, Inc., 1600 Arch Street, Philadelphia. Origin and growth of modern property insurance, tracing its roots back to collective protection of cave man villages. Reviews insurance methods to present day.

BOOKS

WHO GETS THE MONEY. Walter Rautenstrauch. Harpers, 84 pp., $1. Analysis of national income, contrasting its distribution in 1917 with 1928, and attempting to show that productive workers have been deprived of their share for the benefit of "overhead" workers and owners. Tables.

THE FLEXIBLE BUDGET. John H. Williams. McGraw-Hill, 240 pp., $2.50. Comprehensive but non-technical and well illustrated explanation of budget setup and operation. Instructive to corporation executives using this best tool of business management.

Rubber Plan Doesn't Stretch

Foreign rubber control, now being tightened, is succeeding where the Stevenson plan fell down, but is still short of its price objectives; further restriction indicated.

THE 5-year rubber control program approaches another mile-post as the International Rubber Regulation Committee, representing the Far East's producers, prepare to meet next week to set export quotas for the second quarter. Trade interests here, that take 50% of the world's rubber, practically all of it from parties to the restriction plan, hear that shipments will be cut another 5%, possibly 10%, for the next 3 months.

These expectations are predicated upon dispatches from London and Amsterdam that British and Dutch rubber interests now see practically eye-to-eye on operations of the scheme which has been working 7 months with apparent smoothness (*BW—May5'34*). Dutch concern over what their native growers would do is said to have been dissipated and it was fear of a flareup that prompted the Dutch to advise a 75% quota for the first quarter when the English would have preferred a greater curtailment. Both are said to be agreeable to setting a 65% basis, but this may come out 70% in consideration of the heavy current rate of consumption and to prevent excessively violent price disturbances at the moment.

Slow Price Response

So far, prices have not responded startlingly to restrictions on supplies. Ribbed smoked sheets are currently selling in New York at 13¢ per lb., barely 4¢ higher than prices prevailing before the program was put into effect, and at a sharp setback from the 16¢ touched last August in the first excitement of getting the program into effect.

A series of developments intervened to prevent the gradual but steeper rise that sponsors of the plan wanted. First there was the prospect of rubber's being smuggled through Siam, not an important producer but a ready outlet for bootleg rubber from neighboring territory. That threat ended when Siam fell in line last October. Again, at the close of the year reports of disagreement between the Dutch and British gave the market a check. More recently, exchange fluctuations and the demoralized state of London commodity markets, due to brokerage house failures, have blanketed other influences that would tend to boost prices.

Current levels are probably 7¢ per lb., short of the plan's goal. The real objective is not expressed, in contrast to the rigid price factor in the earlier unsuccessful Stevenson plan, but the purpose is an adequate return to plantations. That is assumed to mean a New York price about twice actual cost of production. Costs are said to vary between 8¢ and 12¢ per lb.

Curtailed imports have sent rubber manufacturers into their stockrooms. Factory supplies were drawn down some 19,000 long tons last year. Total domestic stocks, including dealers' along with factories', were estimated at 346,084 long tons at the end of January, a reduction from 370,979 long tons a year ago. That is perhaps 8 months' requirements and still excessive, although how much so cannot be stated. Manufacturers naturally like a generous reserve where they are dependent upon a foreign source, 60 days by boat and rail from their stockrooms.

Consumption Peak

January consumption of crude rubber (47,103 long tons) was the largest for any month since May, 1925. (Incidentally, rubber cost 65¢ that month and rose to $1.21 in July, 1925.) January consumption was 28.5% more than December and 19.9% above January, 1934. Imports were only 42,059 long tons, a reduction of 9% from a year ago, and tonnage afloat to American factories, to arrive over the next 2 months, is only 42,066 long tons, some 3,702 less than at this time last year.

Reclaiming of used rubber, the only effective defense that United States consumers have been able to find against foreign control of new supplies, is coming slowly into play as prices rise. During January, 11,261 tons of reclaimed rubber were used. At the peak back in 1929, the monthly total was 23,000 tons. That dropped to 4,000 tons when crude got down to 3¢ per lb. 2 years ago.

World stocks of rubber were still on the increase up to the end of 1934, December holdings in all hands being estimated at 690,400 long tons, up from 650,500 a year earlier. Restrictions are expected to cut them from 125,000 to 200,000 long tons this year, however.

Capacity production of the areas under restriction is set at 1,088,000 long tons. This would be reduced to 816,000 by a steady 25% curtailment throughout the year; to 761,000 by a 30% cut. Some 30,000 tons additional will come from special allowances granted 2 small areas covered by agreement, and wild Brazilian rubber will amount to perhaps 15,000 tons.

Hence users count upon a world supply of 816,000 to 871,000 long tons.

Consumption is expected to show considerable expansion from the 931,000 long tons used in 1934. F. R. Henderson, New York rubber specialist, puts the minimum consumption at 995,850, considers 1,041,270 a liberal estimate.

While the United States retains the dominant position as consumer, the rest of the world is stepping up requirements. Consumption is still keyed to automobile registration and mileage but in 1934 the United States was using 25% for other purposes.

Follow-Ups

When the news broke, *Business Week* told the story. Later developments add these postscripts.

AFTER several reverses (*BW—Feb1'33*) Seatrain Lines, Inc., wins a victory. The Interstate Commerce Commission rules that the Seatrain service between New York, Havana, and New Orleans is in the public interest. Railroads must interchange cars and post through rates with the ICC by April 5. The Eastern roads will comply glumly; competing coastwise ships are equally unhappy. Seatrain boats are unique in design. They carry 90 cars on rails in the hold, thereby saving huge dock costs at each port. Government loans subsidized construction of two vessels. A mail contract was held up by Congress, is now in litigation. The Missouri Pacific and the Texas & Pacific hold large blocks of Seatrain stock. Eastern roads complained that Seatrain gave the 2 Westerns a direct route into New York.

DESPITE the creation of a government oil monopoly in Manchukuo (*BW—Nov3'34*) which threatened greatly to reduce sales of British and American companies, 1935 allotments, just announced, still permit the following large foreign imports: Standard Oil Co. of New Jersey, 21%; Asiatic Oil Co. (Shell), 18%; Texas Oil Co., 14%; Soviet Oil Co., 6%; Japanese-Manchukuo Oil Co., 14%; all others, 6%.

TO GET their hands in trim, insure full compliance with the advertising regulations promulgated by the Federal Alcohol Control Administration (*BW—Jan19'35*) to become effective Feb. 26 (except in the case of magazine copy which will not come within the purview of FACA until April 12), distillers, rectifiers, and liquor wholesalers and retailers have literally compelled Administrator Joseph H. Choate, Jr., to establish an advertising advisory service. Regulations do not require submission of copy, but because of the amount voluntarily offered for the FACA's approval, Mr. Choate last week announced that his bureau will continue indefinitely "to review and comment upon" advertising, but "only when bona fide doubt exists as to whether the material conforms to the regulations."

For the distillers, it's a system of check and double check, for their code authority will continue to maintain its own censorship regulations and require submission of all copy to Dr. James Doran for approval before publication.

SEARS, ROEBUCK & CO.'s insurance venture (*BW—Mar25'31;Feb10'34*) is paying good dividends. Even with rates 30% below the conference basis for liability and property damage on automobiles, and 20% below on other coverages, Allstate Insurance Co. made an underwriting profit of 12% on earned premium income last year, a total profit of 24% on premiums and investments.

ONE major project in the anticipated expansion of the food manufacturing industries during 1935 (*BW—Dec15'35*) became a certainty last week with the announcement of the Kraft-Phenix Cheese Corp.'s plans to invest $1 million in new construction.

France Goes Modern

Electric household appliance display draws big crowds in Paris. Compact kitchenettes make début.

PARIS *(Special Correspondence)*—The French housewife is beginning to show an interest in time- and labor-saving household equipment which threatens to transcend the traditional French mania for individuality.

Mass-produced electric egg-beaters, kitchen stoves, vacuum cleaners, and refrigerators attracted thousands of Paris housewives to the Exhibition of Household Arts last week at the Grand Palais. Frigidaire and Kelvinator were among the prominent American exhibitors. There were also exhibits of powdered food, rustless metals for sinks, hardware, and plumbing fixtures, and compact kitchenettes similar to those now common in city apartments in the United States but still very new to France. London has recently developed a fad for the "one-room-with-kitchenette" apartment which visiting Frenchmen have eyed with approval.

France has evinced a sudden interest in electrical cooking devices. It has already stirred tremendous competition from the gas industry, which has long been popular. The battle took a turn in favor of electric appliances recently when several popular chefs backed a certain new electric roaster with timing and heat-regulating devices. Installations in the newer apartment houses have also been received enthusiastically because of their compactness and the

International News

APPLIANCES WIN—The traditional individualism of French homes at last is losing to the appeals of standardized mechanical devices. This is a general view of the recent household appliance show which drew big crowds to the Grand Palais, Paris. Leading American exhibitors included Kelvinator and Frigidaire.

ease with which kitchens are kept clean.

Besides the kitchenette exhibits, several attractive small houses were on display. Two knock-down bungalows covered with corrugated sheet iron attracted wide attention. One of them was set up on wooden piles so it could be located over water, with accommodations underneath for boats which have become exceedingly popular in France lately.

Abyssinia for the Italians

Mussolini moves to gain control of last unconquered piece of Africa. Italy wants empire—and resources.

ABYSSINIA'S first treaty of "perpetual peace"—with Italy—has gone sour only 8 years after it was signed. There probably will be no formal war in this corner of Africa, but neither is it likely that Addis Ababa will come out unscathed from the present conflict with Rome.

Outsiders look for facts to explain the move. Some sniff oil, which Italy lacks. However, Abyssinia is definitely known to produce excellent cotton and rubber, to have at least modest iron ore, copper, and potash resources (the last already worked by an Italian company), and to produce hides and coffee for export. Cotton is Italy's largest item of import. Iron ore is only a short way down the list. Coffee and petroleum products are further down but are still big import items, and copper is increasingly essential as Italy expands her industries. Italy's rubber industry might expand importantly if cheap rubber could be imported from neighboring Abyssinia. Gold, platinum, and silver are produced by the Abyssinians, but no one seems to know whether potential resources would warrant large-scale exploitation.

Italy has had designs on Abyssinia for a long time. Following the example set by the British, Portuguese, and Belgians, an Italian trading company first leased a port on the Red Sea. This was in 1870. Twelve years later the government took over this region, occupied more of Abyssinia's Red Sea coast line. An Italian detachment of 400 soldiers was wiped out by Abyssinians in 1887, but at the end of the skirmish, Abyssinia recognized Italy's hold on the colony of Eritrea. Nine years later Italy suffered a serious defeat at the hands of the Abyssinians which put an end, for the time, to her expansion.

Abyssinia's relations with Europe were greatly improved in 1923-24 by the visit of Ras Tafari, the regent. It was on this visit that he persuaded the League of Nations to allow Abyssinia membership. He visited Rome in 1924, and in 1927 played host at a lavish return visit from the Duke of Abruzzi. The treaty of perpetual peace with Italy was outlined at this time, as well as a plan to give the Abyssinians a free port in Italy's Red Sea port of Assab. There was even talk of building a motor road from Abyssinia to the port.

Only One Version

Since Italy controls most of the 1,200 miles of telegraph lines in the country, and France controls the only railroad, it is not surprising that only one version of the recent border skirmishes reached the outside world. It is noted, however, that the December "outrage" was witnessed by British engineers who found a way of convincing Italy through the League of Nations that it would be well to arbitrate their differences with the Abyssinians. No British engineers witnessed the second incident.

A short distance from the present Italo-Abyssinian borders, Abyssinia rises abruptly from the sandy plains to an 8,000-foot plateau. Italian air forces would find few centers of population to attack; ground forces would make small slow progress over the miserable roads. If there is an attack, it is likely to be made before June, when the rainy season begins.

Italy may find it much cheaper and perhaps just as satisfactory to force a virtual protectorate over Abyssinia. If Rome resorts to this, it will give Italy the privileged position in the exploitation of the last piece of Africa not already under European control (except for tiny Liberia), a region three times the size of Italy and with a population of 7 millions, almost all of whom are black.

Little Purchasing Power

Purchasing power of the population as a whole is as small as any other territory in all Africa. Imports from Japan have exceeded those from any other single country for the last several years, though Britain and India send a fair volume of cheap goods. Japanese penetration of this market, as a matter of fact, has worried European powers and probably helped to bring them in line with Italy's request for the privilege of incorporating this region in her sphere of influence.

The United States does very little business with Abyssinia, though there has been a commercial treaty since 1903. A Belgian company has the alcohol monopoly for Abyssinia but has found it difficult to exercise the privilege among the loosely controlled tribes. A Franco-Belgian group is experimenting with large-scale cotton production, and there are two Belgian coffee plantations.

Strangely enough, Abyssinia's only modern tank was given to the king in 1927 by the visiting Italian mission.

Business Abroad

World relieved at gold decision in Washington. Canada plans refunding in New York. France outlines Treasury needs. London unnerved by commodity pool investigations. Russia will remedy freight car shortage.

"SURPRISE and relief" generally describes the world's reactions to the gold clause decision in Washington (page 5). The dollar relapsed on most foreign exchange markets on the announcement, but soon recovered as reassured foreign funds began to flow to New York. Commodity prices recovered. Foreign trade stood to gain from the move, which restored confidence in the comparative stability of currencies which is likely once more to be established.

Only the gold bloc countries showed a trace of new uneasiness as it became increasingly evident that they must compete with depreciated currencies or depreciate themselves. That seems inevitable, though it may not be in the immediate future.

London Will Investigate

Threat of a thorough-going investigation of recent commodity gambling in London perhaps attracted as much attention as any other development of the week in Europe. With an investigation of the pepper and shellac pools already promised, the House of Commons threatens now to investigate the International Tin Pool, which, after all, has the support of a number of governments who want the price of this important commodity stabilized and who do not feel that the current price is too high. Because many prominent names in London are involved, and possibly some banks, the market will be nervous until the situation is fully revealed and the difficulties ironed out.

Italy's war threat still is not taken seriously (page 24). But Berlin is being watched suspiciously because of the refusal of the Nazis to back an Eastern Locarno pact, though they have shown interest in the Franco-British air agreement. Recent rumors that Hitler is sharing an increasing portion of his power with Goering and Schacht is confirmed this week. It was Goering, not the former protégé, Hess, who read over the radio the Leader's New Year manifesto. It was Goering—not Goebbels—who organized the great rally in Berlin on Jan. 3. And it is likely now that it will be Goering who will be first to hold the title of German Chancellor after Hitler.

Russia Concentrates on Railroads

Russia is finally getting around to the transportation industry, one of the least developed under the various Plans. It has been admitted in Moscow in the last few days that Russian freight yards are choked with an accumulation of more than a million tons of metal, and 3½ million tons of coal. Among the accumulated freight are 38,000 tons of rails. A car shortage is responsible.

Every effort will be made this year to ease the jam. Shock workers will help the shops to produce 80,000 freight cars this year. This is more than were produced during the entire first 5-Year Plan. In addition, 1,485 locomotives will be produced this year, in contrast to only 1,211 last year, and 930 two years ago.

Germany

Americans absent from big Berlin automobile show. "Standstill" agreement prolonged.

BERLIN (*Wireless*)—All Berlin flocked to the automobile show last week, the first big show from which American cars were conspicuously absent. Unable to get their funds out of Germany, American manufacturers have abandoned an effort to cultivate the German market intensively. Only Ford, with a car built in his German plant, was present. More than 500 exhibitors were represented. Not yet on display, but promised by Hitler, was the new wonder car, a wholly German automobile with the "least imaginable fuel consumption" and which will cost little more than a medium-priced motorcycle. This the Leader declares, is to be truly the people's car.

"Standstill" Is Prolonged

Americans were also concerned with the German foreign loan agreement reached early in the week. Nearly 2 billion marks of short-term credits, which have been frozen in Germany under the "standstill" agreement among the 8 lending countries and the Reich, will continue for another year under a prolongation of the old agreement. There are two minor adjustments. Interest rates generally are reduced ½%, and those credits which have remained unused for two years are to be reduced by one-half. Interest savings to Germany will amount to about $4 millions a year. Beyond these two changes, the loans will stand for another year with creditors receiving interest in cash. Americans have aggressively sold marks against their accounts for use in Germany. In this way they have reduced their credits from about $360 millions to $172 millions since the last "standstill" was signed.

January foreign trade revealed an alarming increase in the adverse balance. Exports dropped from 354 million marks in December to a bare 299 millions. Though partly seasonal, this is officially attributed to the unsatisfactory working of the clearing agreement. Maintenance of the privileged servicing of European long-term debts is doubtful if this condition continues.

Purchase by the Arnold Bernstein Line (German owned but plying between New York and Antwerp) of two

Wide World

ADDIS ABABA—A busy day in Abyssinia's capital. Though just 450 miles from the French port of Djibouti, it takes "2 or 3 days" to cover the distance over the country's only railway. Addis Ababa has 3 European hotels, which offer candle-lit single rooms for $1.50 a night. Poor as Abyssinia's railroad is, it is better than her motor roads, which altogether total fewer than 100 miles.

of the Red Star liners—*Pennland* and *Westernland*—means that these two vessels will not become the nucleus of a British service, privately owned, which planned to offer $50 crossings of the Atlantic. Instead they will augment the present three popular Bernstein boats in an inexpensive—though not quite on a $50-crossing level—passenger and freight service.

LUXURY AND SAFETY—Marble finished stations with coffered ceilings are a distinctive feature of Moscow's modern new subway system. All stations are laid out in a straight line, making for passengers' safety, and platforms have a minimum width of 13 ft., against 12 in New York, 5 in Paris and London.

Great Britain

Business unsettled by pool investigations. Mail order stores expand. Creaseless linen on market.

London (*Cable*)—Paris has exaggerated the troubles in Mincing Lane which have grown out of the collapse of the pepper pool. On top of this, the split between political forces which has constituted the National government has unsettled business. Net result is the slump of the last few weeks, which has been much more serious than most executives at first expected. Result has been the desperate effort this week of political and business leaders to patch up the differences in the government and cooperate in a bull campaign in the press. The election no doubt will be delayed by the market investigations. And Paris selling has been checked. But the revelation of the ease with which bad money departed has been a drastic lesson to financial London.

Sir William McLintock, receiver and trustee of the commodity firms which failed during the flurry, says no pool in the legal sense existed in the case of pepper. A small group was operating loosely. Genuine backers have not yet been identified. In the meantime, even the sedate *Economist* has freely reprimanded Mr. McKenna and Sir Cunliffe Owen for permitting themselves to be linked with interests which have thrown into disrepute the Midland Bank (Britain's largest) and some of the country's foremost tobacco firms. There is still a fear that tin pool leaders are implicated in the pepper mess.

The popularity of the mail order store is growing rapidly in Britain. Messrs. Littlewoods Mail Order Stores of Liverpool, which only 12 months ago took over a modern 5-story building with 65,000 ft. of floor space, have found it inadequate and are acquiring a 7-acre site and erecting warehouses, storerooms, and offices. The present headquarters are being retained and two new floors added. The firm now employs nearly 1,000 people and many more will be taken on when the new premises are ready for occupation.

New Sales Appeal

Messrs. Tootal Broadhurst Lee Co., Ltd., whose discovery of a process to prevent cotton and rayon fabrics from creasing was announced in the summer of 1932, have now applied their crease-resisting finish to linens.

The firm has brought out two kinds of crease-resisting linens. One of them is a dress weight linen which is produced plain dyed and printed. The prints include a number of striped effects as well as the usual floral designs. The other is a heavier fabric, plain dyed, intended for suits, skirts, and coats.

Last year the firm paid a dividend of 10%.

At a cost of over £500,000, 23 more route miles have been added to the London suburban electric system of the Southern Railway. The extension is in the neighborhood of Sevenoaks, Kent, a district which has expanded rapidly in recent years as a residential area for workers in London. It has been largely because of the electrification of the railway lines to the south of London that the great development of these regions for residential purposes has been possible, since it enables much more frequent train service.

France

Plan for cheaper money through new Bank of France policy fails. What the government must borrow this year, and how.

Paris (*Wireless*)—Unemployment continues to mount in France but Flandin's vigorous policy for handling the growing emergency won unexpected support from the government this week and his position at the head of the government is again comparatively secure. One bold stroke which is planned is to increase the number in the military service, thus absorbing 120,000 jobless men and economizing half a billion francs on doles.

Finance policies under the Flandin government have held wide interest in Paris. Something of the government's policies was revealed recently when the budget reporter of the Senate outlined Treasury needs for 1935:

	Millions of Francs
A—Maturities	
Six-year notes (Feb. and Aug. 16)	107
Bonds of the Crédit National	489
B—Loans Recoverable in Near Future	
Poste, Telegraph & Telephones	800
State Railroads	800
Public Aid Corporations (low rent buildings, Aid Centers, etc.)	850
Colonies (Algeria)	500
National Defence	2,400
Veteran Pension Administration	900
Support of Wheat Market	2,100
Wine Legislation	150
C—Loans Practically Unredeemable	
Railroads' Common Fund	400
D—Definite Expenditures	
Payments to Crédit National	150
Military Cemeteries	15
Frontier Organizations	80
National Equipment (2nd Section)	140

This makes a total of about 10 billion francs to which must be added from 3 to 4 billions, estimated deficit of the current budget. The Treasury will thus need about 7 billion francs during the first quarter, about 4 billions in the second quarter, and 3 billions in the last two quarters.

The Minister of Finance has explained that he would borrow about 4 billions direct from the Caisse des Depots & Consignations, about 5 billions on the market for long-term loans and about 5 billions of short-term funds to be converted during the year into middle-term issues, so that it is anticipated that through the good offices of the Caisse and thanks to the short issues no long-term government loans will come during the first four months.

The government has run into unexpectedly sharp opposition from the Board of Directors of the Bank of France concerning the possibility of discounting large amounts of Treasury bills. It has had to specify that under no condition will it give up its absolute control of the discount policy. This puts a damper on early dreams of discounting vast issues of Treasury bills.

The Minister of Finance has also promised that any Treasury bill held by the Bank would be paid at maturity and not extended. The impression in Paris, following these discussions, is that the government, by using dictatorial tactics in shifting the governorship of the Bank without asking the advice of the board of directors, has lost the sympathy of the board. To speak of "reforming the credit policy" under these conditions is absurd. Practically nothing has been changed, and this is to be regretted, for money rates in France are out of line with other countries and these high rates are retarding projects which might help to pull French business out of the depths into which it is sinking.

Canada

Unemployment insurance bill passes second reading. Refinancing attracts interest in Montreal and New York.

CANADIAN business is interested in just three developments this week: progress of unemployment insurance legislation; the gold ruling in the United States; Canadian refinancing projects.

The unemployment insurance bill (*BW—Feb9'35*) has passed its second reading with almost unanimous support.

With about $2 billions of Canadian gold bonds of one sort or another held in the United States, Canadians were greatly relieved when the Supreme Court handed down its decision in favor of payment in United States currency at its present value. This $2 billions includes outstanding issues of Dominion, railway, municipal, provincial, and private corporation bonds.

Finally there is the question of funding operations. Outstanding is the probable refunding of nearly $200 millions of Canadian National Railways, almost entirely payable in New York. Callable at from par to 103, these issues carry interest ranging from 4% to 7%. If they could be converted at 3½%, it would mean a saving to the Canadian treasury of more than $3 millions.

Vancouver Demands Interest Cut

Provincial funding operations have been considered but the government has not yet agreed to lend its credit to support these operations. With provincial treasuries pumped almost dry, and with a portion of the outstanding municipal bonds (estimated as high as 10%) technically in default because of failure to meet maturities (interest has been maintained), refunding is a pressing problem. The recent threats from the city of Vancouver to cut its interest payments on outstanding bonds by one-half, and the determination of the federal government to maintain Canada's credit abroad may indicate a conflict ahead. Mining companies are likely to be among the first to seek new funds this spring. Central Canada Mines, Dominion Kirkland Gold Mines, and McAndrews Gold Mines are already said to be considering expansion plans requiring new funds.

Far East

Japan sells more cotton goods than silk. Tokyo woos tourists. China places large orders in Britain. Yangtze province gets first Ford.

JAPAN'S conquest of foreign markets for cotton piece goods continued last year. Not only did exports of cotton cloth exceed all others, but they were half a billion yards greater than British exports, long the leaders in world markets.

With her industrial progress, Japan is attempting to develop the tourist business. This year, Japan will build 5 new tourist hotels, will centralize all existing tourist organizations within the country under one great central bureau similar to the French scheme, and will play host to 50 tourist organizations which have been invited to send representatives to a conference in Tokyo in April, famed cherry-blossom season in Nippon. Plan is to win foreign cooperation in this project to popularize travel in the Orient. Last year, more than 30,000 tourists spent more than ¥20 millions in Japan.

Further to acquaint the rest of the world with Japan, the Japan Broadcasting Association is planning a daily broadcast of Japanese news to listeners in Europe and the United States, beginning Apr. 1. Broadcasts will be in English, will originate over the JOAK station in Tokyo. This supplements the comparatively new "Japan in Pictures" which is distributed abroad now and a monthly photogravure magazine sponsored by the *Asahi Shimbun-Sha.*

Tokyo After Iron Reserves

Japan's recent push into Chahar province, north of Peiping, was partly motivated by the desire to control its large iron ore reserves, according to a study made by the Institute of Pacific Relations and released in its *Far Eastern Survey*. It is estimated that 40% of China's reserves of ore are in Chahar and it is said that they are the only large deposits in China proper still free from foreign control. It is not generally known that Japan in recent years has been importing half of China's iron ore production—most of it in the Yangtze valley—and 99% of Chinese exports of this product.

Large orders for machinery and construction materials for China continue to be placed in Great Britain. The Chinese Government Purchasing Commission has recently called for tenders to the value of $500,000 from British firms for machinery and equipment for an engineering workshop to be erected in the vicinity of Shanghai for production of steel tubing. Another British engineering firm has secured an order from the Chinese State Railways in Honan for a complete power station, a coal storage, reclaiming and shipping plant, and for handling equipment.

Indicative of market possibilities in China for various types of American goods is the report of the *North China Daily News* from one of its correspondents in Kweichow province. (This province is south of the Yangtze and northwest of Canton; has a population estimated to exceed 15 millions; was in the path of the "Communists" in their recent evacuation of south-central China in favor of the less accessible territory in the uppermost reaches of the Yangtze.) "At last the honk of the motor car has sounded here. A representative of General Wang has arrived in a Ford limousine to inspect the new road. Two or three trucks have been purchased for a transport over the new road. Extremely high gasoline taxes will prevent extensive use of motor cars in the immediate future. The radio has not yet made its appearance in these parts. So far as I know there is not yet a wireless set in the entire province."

Latin America

Foreign business coerced under new Mexican rulings. Cuba gets first paper currency.

MEXICO'S drive for complete national control of the economic life of the country affected one British and one Canadian company last week. The British-owned Eagle Oil Co. is condemned in a lower court decision to deposit within the country $10 millions for oil which the company extracted from wells on which its titles are defective. The Mexican Supreme Court has ruled that the money—now on deposit in London—must be deposited within Mexico before the court will handle the appeal from the Eagle company.

The Sun Insurance Co. of Canada has been ordered by the Treasury Department to invest 3½ million pesos in Mexico or to leave the country. This demand is made in accordance with the new Mexican law requiring insurance companies to invest 70% of their reserves in national securities.

Bluebacks for Cuba

In neighboring Cuba, bankers and newsboys brushed elbows in the general rush to secure crisp new blueback bills (Cuba's first) from the National Treasury. About 10 million pesos worth of the new bills are being placed in circulation, backed by silver already purchased and now in the process of being minted in Philadelphia.

Credit managers added Costa Rica to the "black" list this week. With nearly $3 millions of commercial credits blocked within the country, and payments lagging from 2 to 7 months because of the shortage of dollar exchange during the slack coffee export season, United States exporters are warned no longer to expect prompt payment on goods shipped to this Central American country.

Money and the Markets

Markets are relieved but not excited by gold decisions. Banks have been quietly expanding commercial loans. New financing will be led by government. Stocks remain persistently sluggish. Commodities push to new highs.

THE financial world gave vent to its relief over settlement of the gold case controversy in one hectic hour of confusion and excitement last Monday noon. The marketplaces for that brief period recalled the rush of 1929 boom days in contrast with their lifelessness of the last month.

The speculative markets expressed the general satisfaction over the outcome of the gold litigation—although they were unable to live up to the promise of that first burst of activity and price strength. Even financial interests that would have preferred a different result were glad to have the suspense ended, to be able to divert their own and customers' attention in other directions. There had arisen in the last few weeks the feeling that the matter was being overemphasized, that it was becoming an alibi to avoid decision on pending matters.

While the Court's ruling means no more than a status quo in monetary affairs, that of itself is ground for genuine gratification. The ever present threat of radical elements in Washington was in the minds of bankers who sighed with relief upon hearing the decisions. Any reopening of the gold question would have provided opportunity for the inflationist fringe to bring forth its ideas to challenge the rigid control of the Administration and even the bitterest enemies of the Administration would have regretted profoundly this outcome.

Inflation No More Imminent

Inflation is now no more or less imminent than it was a month ago. The review of the situation now permitted indicates that Washington's policy is turning further away from money manipulation and toward moves designed to stimulate credit expansion to provide business stimulation. The Administration's banking proposals are the most direct indication of this tendency. The President, through the Treasury and his dominance of the Reserve Board, proposes to be in a position to see that unused lending power of the banks comes into play.

Another indication of the trend away from monetary changes was Secretary Morgenthau's expressed intention to preserve the stable external value of the dollar. This ties up with the last statement of policy on money matters implied in the removal of restrictions from all foreign exchange transactions aside from gold shipments 6 months ago. A stable external dollar and free traffic in foreign currencies implies equal stability internally.

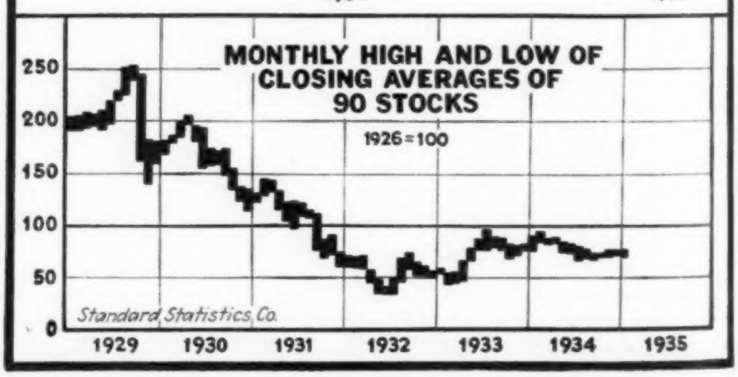
For the moment inflationary talk is again in the air. It should be discounted. If for no other reason, there is the fact that the Treasury has important financial operations immediately ahead. It will do no rocking of the boat at this juncture.

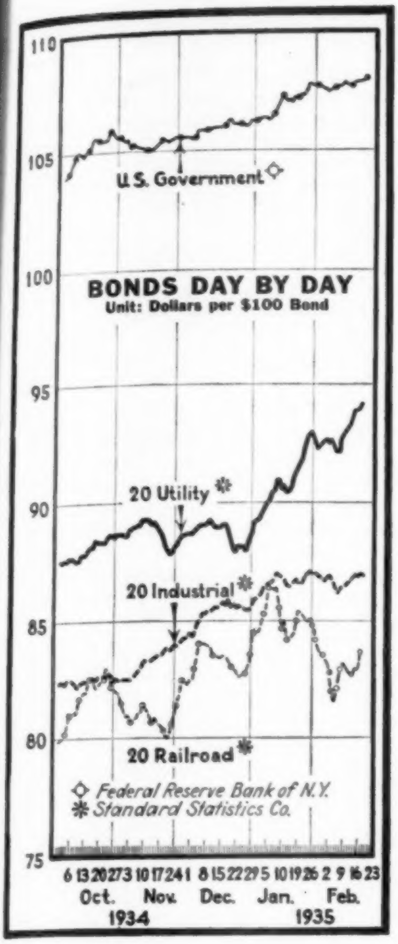
The careful preparations made in financial circles for the Supreme Court decisions, regardless of their nature, were demonstrated by the orderliness of affairs following the announcement. This careful balance was a factor in leading the markets into another stalemate only slightly less complete than that which prevailed a week ago. Even in foreign exchange markets, adjustments were limited to a narrow range. Dollars that had been selling 1¢ above francs, dropped to a slight discount. Whether this differential spreads sufficiently to enable foreign central banks to recover some of the $250 millions of gold that have come to this country since Jan. 9 will depend upon the Treasury's use of the stabilization fund. It quite evidently switched from selling to buying dollars this week, as evidenced by the steady value of the dollar against foreign currencies.

Under cover of all the excitement of recent weeks, the banks have modestly expanded commercial loans. The reporting member banks, representing some 60% of the country's banking resources, have increased miscellaneous loans by $30 millions since late January. This is less than the normal seasonal expansion and is partly offset by the continued run-off of commercial paper and acceptances. However, it is indicative of the continued pickup in general business. The gold uncertainties did not completely arrest activities.

Row Over Surety Coverage

A row between the banks and insurance companies about surety bonds is causing as much excitement as the fundamental changes in banking laws under consideration in Washington. The strife





originated in New York State where a bill was introduced that would bar London Lloyds from doing business here. Subsequently, another bill of similar import was introduced in Washington to bar them nationally.

It is understood by the bankers that American surety companies and Lloyds have arranged for the latter to share in business written by the American companies. A resentment, particularly among the smaller banks, against the surety companies is coming to light in their opposition to the proposed restriction of their coverage to domestic underwriters. It appears that surety companies, by cancelling deposit insurance during the bank run era, contributed to withdrawals to the embarrassment of insured institutions. Of course, such insurance was subsequently stopped altogether and is now provided by FDIC, but the banks would like competition for other surety coverage needs.

Bonds

The persistent upward trend of values on gilt-edge securities continues to ignore any obstructing developments. Flurries of the last few weeks have merely punctuated the movement of prices with moments of hesitation. In the aftermath of the gold decisions, government obligations got into new high ground and although there was some switching from "gold clause" obligations to legal tender issues and junior liens, such selling was well balanced by new buying coming into the market.

Investment bankers were perhaps more directly concerned about the gold case outcome than any other group. A decision adverse to the government, regardless of any succeeding remedial measures, would have had severe repercussions in the investment markets, particularly since prices have been at such high levels and so easily upset.

Junior Issues in Vogue

With the threat to high-grade securities out of the way, attention now naturally reverts to the junior issues, which were under a cloud of uncertainty as long as any chance remained for gold payment suits on underlying obligations.

One more test of the gold clause cancellation impends in the move of English holders to test the position of foreign buyers under the Court's ruling. A committee representing British investors in United States gold securities will consider a move to bring their position under review at a meeting next week. The French, who have regularly paid old gold values to American holders of French government and municipal obligations, will not seek gold in turn on their holdings of American securities.

The investment bankers are now looking ahead anxiously for early resumption of new financing, which had to be shelved during the last month. The first borrower into the market will probably be the government, which has a series of large transactions on the fire for Mar. 15.

March Financing Heavy

As of that date there is a maturity of $528 millions of $2\frac{1}{2}$% Treasury notes for which an exchange offer will be made. In addition, $1.8 billions of Liberty $4\frac{1}{4}$s, called for payment April 15, may be included in the immediate financing. Besides these two refunding operations, the market considers that the issuance of a sizable block of new bonds is possible, although little credence is given to the extravagant prediction of $1-billion worth. It is pointed out that the working fund balance remains currently at $1.3 billions and that Mar. 15, a heavy tax receipt date, will bring in more money. Since the spending program has found heavy sledding in Congress and since new demands for money have consequently been curtailed, there is some question whether the Treasury will have to go beyond the refinancing of maturing obligations at this time. If it can tide itself over until June 15, financing operations will work in more readily with the smaller maturities of that date.

Meanwhile, plans are being perfected for the initial offering of the "baby" discount bonds, starting Mar. 1. On that date, bonds ranging in denomination from $25 to $1,000 will be on sale at 14,000 post offices. They will carry no coupons but will be sold at a 25% discount which will net the holder 2.9% over the 10-year term. If cashed prior to maturity, the return will be cut by a sliding scale of redemption prices which provides no increase in cash value for the first year, a step up of $1 each 6 months for the next 6 years, and of $2 each 6 months for the last 3 years.

Stocks

Stock trading could not be shaken out of its narrow rut even by the spectacular events of the last week. The frantic scramble for stocks in Monday's session held brief promise of something better in the way of heavier volumes and broader interests, but with no follow-through on that buying and another holiday interruption at the close of the week, affairs in the equity market are little changed.

So far, the market gives no reflection of the high pace set in industrial operations since the first of the year. Prices have made no definite progress since the early December sell-off. The current level of averages barely equals those prevailing at the yearend, although for 2 months business has been rolling along in good style.

Individual issues have been able to break away from the general trend for short excursions into higher levels but have been unable to get far against the drag of weakness elsewhere. Within the last week the utility group has sunk to new low levels and, for all their spurt following the gold decision, railroad stock prices still hang near their low point.

From a market point of view, the favorable business news has gone stale for the moment. Not having been utilized by bullish operators when it was a pleasant surprise earlier in the year, the record no longer appears so impressive, particularly since current operations are being compared with a period of last year when things were picking up.

Inducements to Bank Stocks

Washington reports indicate that SEC may take steps to encourage listing of bank and insurance stocks on exchanges, offering them special registration regulations as an inducement. On the over-counter market, where most of such trading is now done, the shares have no collateral value under the Federal Reserve security loan regulations. For a time, the New York Produce Exchange listed a block of both types of shares, but that will be discontinued by the first of the month when the exchange proposes to have its stock department closed. Banks were not favorably disposed to having their shares included in the list, and insurance companies have in the past indicated preference for unlisted dealings in their issues.

Public interest in shares of some of the larger insurance units is comparable in breadth to that in even the largest industrial corporations, while the market facilities provided for such shares are in no wise comparable to the broad markets in industrial stocks.

Commodity Markets

A FILLIP of speculative buying in the actively traded commodities last week was enough to push the general level of commodity prices into new high levels in the long upswing that set in almost 2 years ago. Food prices have been in the vanguard on the recent advance, with livestock the particular feature and hogs at the highest levels since the fall of 1930.

In part, this phase of the rise is seasonal, since new supplies of many foods will be on the markets before long. Current prices are high enough to bring heavier imports which, although not adequate to make up domestic shortages, tend to take the edge off markets.

But prospects improve for major commodities, particularly cotton and wheat, to take up the burden of advancing prices as present market leaders drop out. Both gave a rather disappointing performance upon conclusion of the monetary uncertainty, the really bullish demonstration of Monday's session giving way to dull and uneventful sessions over the rest of the abbreviated business week.

Trade Buys on Dips

Trade sources expect better things from both over the near future, on the presumption that flour mills and textile plants will be forced to come into the market for heavier supplies than they have been taking. Recently they have restricted buying to the low points of the frequent dips.

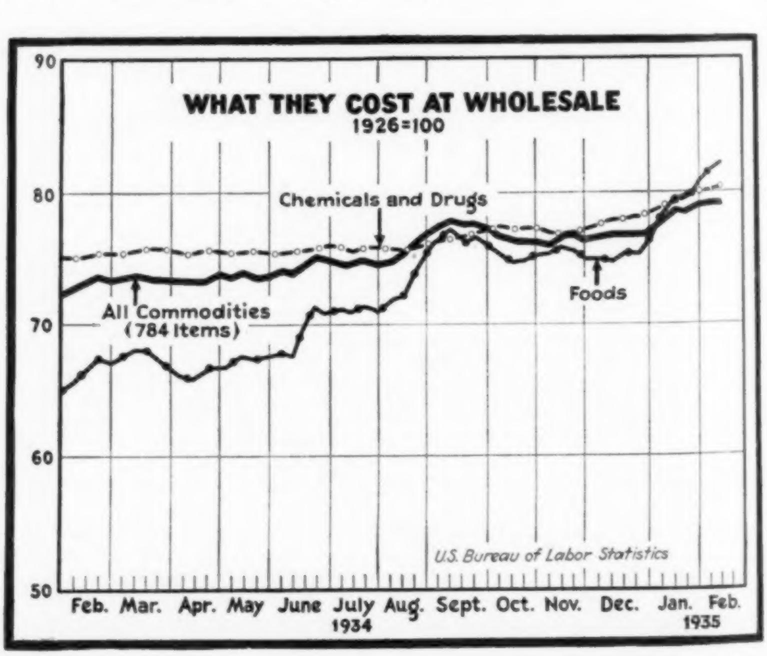
The government is moving immediately toward the world cotton agreement, having dispatched Oscar G. Johnston, general manager of AAA's cotton producers' pool, on a tour of foreign producing nations to sound them out with reference to cooperative efforts along this line. Reports that he would also seek to dispose of pool cotton holdings were denied although it is presumed that he will neglect no opportunity to improve foreign consumption of the American staple in view of Washington's concern over the shrinkage of that business. Total exports for the first 6 months of the current cotton season were only 2,865,000 bales as compared with 4,919,000 bales in the same period of the previous year, in which the total exports were the smallest since 1923.

Grains Sluggish

Grains still suffer from the drag of sluggish world markets, were even denied the brief fling that most other markets enjoyed upon announcement of the gold decisions. Trading was suspended in Chicago and most other grain centers following the decision, and when it was resumed next morning the excitement had gone from the news. A better tone in markets abroad, greater trade interest in the spot article, higher prices on livestock and dairy products that more nearly balance the expense of feeding, all carry the connotation of better times in the cereals.

Silver prices were marked up to prices near the top set in last year's big upturn, but this appeared to reflect nothing more than change in foreign ideas on prospects for dollar values as a result of the gold decisions. The United States price fell behind the London market's when a combination of heavy Oriental buying and the depreciated pound put the bullion there up to the highest figure since 1929.

Other metals remain barely firm, the foreign market for copper having lost its fear of the much-discussed world producers' agreement which has not yet been called, although predicted since the first of the year. Heavier domestic deliveries of copper, while cutting steadily into stocks, cannot be a market factor since the price is being arbitrarily held at 9¢.



Editorially Speaking—

Not many luncheon table statesmen—and aren't we all?—can get through a discussion on the general theme of "Whither are we drifting?" without dragging in a comparison with Great Britain. This is particularly true when the subject is government debt and taxes. But nobody ever seems to have any figures.

Here are a few:

The net national debt of the United Kingdom is $38.5 billions. Debts of local subdivisions are $6.5 billions. Total $45 billions.

Our national debt is $28.5 billions. Debts of states, counties, cities, etc. are $19.5 billions. Total $48 billions.

British per capita debt, $967. Ours is $382; will be $426 by June, 1936, assuming stationary debts of local subdivisions.

With a per capita debt of $967 and limited natural resources, British credit still is pretty good. Which suggests the conclusion that we are nowhere near a dangerous limit of expansion. But, as the Guaranty Trust Co. points out, there are differences. The British budget is in balance, its policies well established. Investors and business men are not worried. Not so here. In other words, our trouble is fear, justified or not.

Guaranty goes on into a comparison of per capita taxes in the two countries. An unmarried man in Great Britain with an earned income equivalent to $2,000 a year pays $149.06 income tax. Here he would pay $32.

We started to wade into that once, and retreated hastily to the shore. Comparison is wholly meaningless. We tried to work out a comparison, spent 6 months on it, with the valiant assistance of our London correspondent. It can't be done. Well, maybe the National Industrial Conference Board could do it, in cooperation with the statistical division of the British Home Office. But if they try it, they'll be busy for some time.

To compare the bare figures of income tax is simple enough. But to compare the tax burden is something else. Consider:

(1) The British government absorbs a great many of the functions of our states—and even of our counties and municipalities. Moreover, it operates the telephone, telegraph and broadcasting systems. (2) What state shall our American live in, to make fair comparison? What city? (3) How about real estate taxes? (4) Let's go into the indirect tax burden: tariffs; taxes on liquor, playing cards, cigarettes; sales taxes; license taxes as reflected in the price of food, amusement, etc. (5) What about special taxes, as on gasoline? (6) There's a little question about schools. Is the Britisher paying tax bills that cover virtually all school children, as do we? Then there are the state universities—

You can think of more questions. We have suggested enough to make our point, perhaps.

One of the most engaging qualities of the American business man is his naive pride in his own occupation, whether it be making shower bath curtains, umbrellas, or powder puffs. NRA has the entirely sensible idea of consolidating a multitude of small and more or less related industries into fewer units, for more efficient and less costly code administration. But pride is a stumbling block. For example, it is proposed to merge 9 light sewing industries. The three groups mentioned object vigorously. They don't want to submerge their identities.

$X = 0.3515\ AB - 1.0096\ C - 0.5048\ D + 0.090$

There you are! With that formula you can forecast accurately the ratio of the average price of 15 different oil companies' stocks to the general stock market level as represented by 421 other stocks. Dr. Norman D. FitzGerald of the Petroleum Administrative Board has worked it out and tested it for 48 months. Now all we need is a formula for forecasting the level of the stock market in general. Which the Doctor doesn't supply.

"How can a life insurance company, whose whole text is security, well object to a national program for social security?" That seems to paraphrase the attitude of the Metropolitan Life Insurance Co. as expressed through Leroy A. Lincoln, vice-president and general counsel. It "has no misgivings" as to the effect of old age annuities to be paid by the government, provided only that the fund is self-supporting; believes this will stimulate the purchase of annuities from insurance companies. "Specifically" the company endorses "the principle of unemployment compensation"—reserving judgment as to particular schemes. It believes that among other benefits, not the least will be ability of the unemployed to keep up their insurance, and not lose its permanent protection when a purely temporary adversity overtakes them.

Always alert to progress, we hasten to report a new product—a porcelain jacket to be worn over your whole set of teeth, giving you a fine, flashing smile to bedazzle customers with. Invention of a Massachusetts dentist.

BUSINESS WEEK

The Journal of Business News and Interpretation

FEBRUARY 23, 1935

The Right Way to Bank Control

The Administration is about to achieve economic dictatorship in this country by the simple procedure of confiscating complete control of our banking and credit structure. Neither organized business nor organized banking has done anything to prevent this seizure. In fact they have not even protested. This on the theory that any protest of theirs might goad the Administration into more drastic schemes of confiscation and socialization, although just what could be more drastic than the implied ramifications of the present move is difficult to conceive.

Marriner S. Eccles, the new governor of the Federal Reserve Board who has accepted the assignment of delivering control of American banking and credit to the Administration, has issued a plea of justification which begins with these words: "The banking system of this country has been put to a severe test and has not stood that test." The test and the failure are both obvious. Let us see wherein the system failed and why.

If Mr. Eccles refers to the collapse of thousands of individual banks he must know that these failures were occasioned by four principal evils, no one of which his new banking act does the least to cure and one of which it dangerously aggravates. The first and most potent evil was that, under the encouragement and often under the lash of the politically controlled Federal Reserve Board, banks put a dangerously large part of the commercial credit of this country into capital employment, where it must inevitably and did become frozen and depreciated.

The second was the widespread and dangerous laxity surrounding the issuance of bank charters by virtue of which anyone who could pay a registration fee and borrow a few dollars could hang out a shingle and call himself a bank, this resulting in a scandalous excess of banking facilities in this country. The third was the competition between the state and national banking systems whereby political trading resulted in a constant weakening of the safeguards of sound banking. The fourth was lax, incompetent, and frequently dishonest bank examinations under political control. Mr. Eccles offers nothing to cure these evils.

It seems probable that Mr. Eccles has ignored these four evils as being unworthy of the mettle of the real *jefe-politico* of banking reform. Instead he seems to allude only to a generic situation whose evils are illustrated by the indisputable fact that from 1926 to 1929 inclusive our "banking system" went blindly about the business of manufacturing a colossal volume of fictitious capital in the name of commercial credit, and as a result found itself frozen and impotent when the collapse came.

One can assume he takes such an attitude because he says: "Experience shows that, without conscious control, the supply of money tends to expand when the rate of spending increases and to contract when the rate of spending diminishes." That is precisely what happened from 1926 to 1935. Mr. Eccles may be presumed to be intelligent enough to know that the result was not accomplished without "conscious control." On the contrary, it was accomplished by the conscious control of one Administration after another, deaf to the defiant protests of sound bankers and business leaders.

Does Mr. Eccles deny, and if he does there is overwhelming evidence to prove that the panic of 1920 and its price collapse occurred because senseless inflation had been manufactured in Washington and individual Federal Reserve banks were coerced and clubbed into carrying out the Administration's plans. This went on until reserves of the Federal Reserve banks were dangerously near the legal limit, and there was nothing left on which money could be borrowed and credit manufactured.

Then came the time when the Reserve System should have been ready to inflate and to meet the shock of the depression. Instead of that, under direct orders from the Federal Reserve Board, agents with all the manners of house detectives went through the country frightening and damning bankers and creditors, and forcing collections and foreclosures. All that was under "conscious control" of a national Administration at least as well grounded in the principles of banking and economy as the Administration to which our banking system is now to be surrendered.

As between leaving a limited control of currency and credit in the hands of bankers or surrendering complete control to a political administration, anyone having regard for national preservation must choose the bankers. But in real economics there is no occasion for such a choice. Practically all the power it is proposed to deliver to the Administration might very well be turned over to something in the nature of a supreme court of finance or economics which would be entirely independent of bankers and independent also of politics, except that its original grant of authority would come out of politics. There is nothing new in this idea. *Business Week* suggested it long ago.

There are few competent central bankers in this country, and certainly none are associated with the Federal Reserve Board or the Administration. There is no such profession in this country. Consequently, it probably would not be wise to appoint members of such a board for life, as Supreme Court judges are appointed. Their terms of office should be longer than that of a national Administration. Probably five members would be sufficient, or at the most seven, with one term expiring every year. Not all appointments would prove sound, but every member should be assured pension enough to maintain him for life if he served one term without impeachment. This arrangement would leave honest members free to abjure all business entanglements and give them complete independence of both bankers and politicians. Salaries for the office should be sufficient to allow the sort of man who ought to hold such a job to be comfortable in his accustomed mode of living.

The cost of such an arrangement would be little enough to give us ability, independence, and honesty in the administration of the biggest banking system in the world. The Federal Reserve has always been one of the soundest and most efficient central banking systems in the world. Its management has been its weakness.

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